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No. 98-

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1998

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,
Petitioner,

v.

GENENTECH, INC., AND UNITED STATES OF AMERICA,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Does a state entity implicitly waive its Eleventh Amendment immunity, and thereby constructively consent to be sued in a declaratory judgment action in federal court, by securing a patent and threatening to enforce it, where no such waiver is authorized by the state constitution, statutes or judicial decisions?

2. If there is no waiver, has Congress validly abrogated such a state entity's immunity from suit in federal court pursuant to Section 5 of the Fourteenth Amendment?

PARTIES TO THE PROCEEDING IN THE COURT OF APPEALS AND RULE 29.6 STATEMENT

The petitioner in this case is The Regents of the University of California. The Regents of the University of California is a corporation authorized by article IX, § 9(a) of the California Constitution. It has no parent and no subsidiary companies. Petitioner was the defendant in the District Court and appellee in the Court of Appeals.

Respondent Genentech, Inc., was the plaintiff in the District Court and the appellant in the Court of Appeals.

Pursuant to 28 U.S.C. §§ 517 and 2403(a), the United States intervened in the Court of Appeals to defend the constitutionality of two provisions of the Patent Act, 35 U.S.C. §§ 271(h) and 296. The United States has been included as a respondent in this case.

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THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

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On Petition for a Writ of Certiorari
To the United States Court of Appeals
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PETITION FOR A WRIT OF CERTIORARI

Petitioner, The Regents of the University of California ("the University"), hereby petitions this Court to grant a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The opinion of the Court of Appeals is reported at 143 F.3d 1446. Appendix to Petition ("Pet. App.") at 1a. The opinion and order of the United States District Court for the Southern District of Indiana is reported at 939 F. Supp. 639. Pet. App. 18a.

JURISDICTION

The judgment of the Court of Appeals was entered on May 4, 1998. Pet. App. 1a. A petition for rehearing was denied August 5, 1998. Pet. App. 67a. The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL AND STATUTORY PROVISIONS INVOLVED

The Eleventh Amendment to the United States Constitution provides:

> The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.

The Fourteenth Amendment to the United States Constitution provides, in pertinent part:

> [Section 1.] No State shall . . . deprive any person of life, liberty, or property without due process of law[.]
>
> [Section 5.] The Congress shall have power to enforce, by appropriate legislation, the provisions of this article.

Title 35 U.S.C. § 271(h) provides:

> As used in this section, the term "whoever" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity. Any state, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.

Title 35 U.S.C. § 296(a) provides:

> Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal Court by any person . . . for infringement of a patent under section 271, or for any other violation under this title.

STATEMENT OF THE CASE

A. Introduction and Summary

In this case, respondent Genentech, Inc., seeks a declaratory judgment from a federal court that the University of California's patent on DNA encoding for human growth hormone is invalid and unenforceable, and that Genentech's human growth hormone product does not infringe the University's patent. The District Court dismissed the case, holding that the University was entitled to Eleventh Amendment immunity, that an abrogation statute enacted in 1992 did not apply where the state entity is the owner of the patent, and that any attempt to apply the abrogation statute in that context would be unconstitutional under this Court's ruling in *Seminole Tribe of Fla. v. Florida,* 517 U.S. 44 (1996). The Court of Appeals for the Federal Circuit reversed, finding that the University, by securing its patent and threatening Genentech with enforcement of it, had waived its immunity. Certiorari is sought to review the decision of the Federal Circuit Court of Appeals.

B. Statement of the Facts

The University is the State of California's "primary state-supported academic agency for research," whose mission is to "provide undergraduate and graduate instruction in the liberal arts and sciences and in the professions," with exclusive jurisdiction over medicine and other fields. Cal. Educ. Code § 66010.4(c) (1988). The University is a branch of the State of California, a public corporation under state law, and a "public trust . . . with full powers of organization and government." Calif. Const. art. IX,

§ 9(a). The University "constitutes a branch of the state government equal and coordinate with the legislature, the judiciary and the executive." 30 Ops. Cal. Atty. Gen. 162, 166 (1957).

The University is the owner of U.S. Patent No. 4,363,877 ("the '877 patent"), entitled "Recombinant DNA Transfer Vectors," issued on December 14, 1982. The University has granted an exclusive license of the '877 patent to Eli Lilly and Company ("Lilly"). Genentech is a biotechnology company that manufactures a recombinant human growth hormone product that the University believes infringes the '877 patent.

On August 6, 1990, Genentech initiated this suit against the University in the federal district court for the Southern District of Indiana, seeking a declaratory judgment that the '877 patent is invalid or unenforceable, and that its product does not infringe the patent. Immediately thereafter, the University brought an infringement suit against Genentech in California, but the multi-district panel consolidated these and other cases for pretrial proceedings before the Indiana court.[1]

The Indiana court initially dismissed Genentech's suit on Eleventh Amendment grounds in 1991. Pet. App. 60a. While Genentech's appeal was pending before the Federal Circuit Court of Appeals, Congress enacted the Patent and Plant Variety Protection Remedy Clarification Act of 1992, Pub. L. No. 102-560, 106 Stat. 4230, which added 35 U.S.C. §§ 271(h) and 296 to the patent laws. These provisions seek to abrogate Eleventh Amendment immunity for States and their instrumentalities in suits for infringement or for any other violation of the patent laws.

Based on this enactment, the Federal Circuit Court of Appeals reversed the initial dismissal. *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931 (Fed. Cir. 1993), Pet. App. 31a. In so doing, the court rejected the University's arguments that the abrogation provisions did not encompass actions against the State as patent owner. Pet. App. 44a-48a. In its view, construing the abrogation provision to embrace declaratory actions against a state patent

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[1] The University's case against Genentech has been remanded back to the Northern District of California. Trial in that case is currently scheduled for next spring.

owner served the congressional purpose of treating States and private parties alike for all purposes. The Court of Appeals also held that the State had waived its immunity with respect to certain other claims brought by Genentech under state law. Pet. App. 50a-56a. This Court denied the University's petition for certiorari. 510 U.S. 1140 (1994).

While the case was on remand to the District Court, this Court decided *Seminole Tribe of Fla. v. Florida*, 517 U.S. 44 (1996), holding that the power of Congress under the Indian Commerce Clause of Article I of the Constitution did not authorize a statute abrogating the States' sovereign immunity under the Eleventh Amendment. Based on this decision, the District Court again dismissed the Genentech complaint, holding that the rationale of *Seminole Tribe* extended to efforts to abrogate undertaken pursuant to other Article I powers, and that Section 5 of the Fourteenth Amendment could not justify an attempt to abrogate the immunity of a State that was the owner of a patent. Pet. App. 25a-26a.

The District Court also considered whether the University may have waived its Eleventh Amendment immunity. According to the court, Genentech contended that the University had waived its immunity because it had obtained a patent and entered into an exclusive license with Lilly under which Lilly could demand that the University sue any infringers, and because Lilly had "subsequently demanded that [the University] sue Genentech" and, "in response to that demand, [the University] accused Genentech of infringing the '877 patent and threatened suit." Pet. App. 27a.

Accepting Genentech's contentions as true,[2] the District Court found that there had been no waiver by the University. Looking to this Court's precedents requiring a clear expression

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[2] Genentech's Second Amended Complaint avers only that by August 6, 1998, "it had become clear to Genentech" that "Lilly was pressuring" the University to bring suit against Genentech under the patent, and that "[a]ccordingly, Genentech filed the instant declaratory judgment action on that date in this Court." Pet. App. 69a. The Complaint does not describe any specific action taken by the University that threatened litigation to enforce its patent.

that a State has waived its Eleventh Amendment immunity from suit, the court was "unpersuaded that procurement of a patent is evidence of consent to suit, let alone clear evidence of consent." Pet. App. 28a. The court was likewise unconvinced that a license agreement requiring the University to sue infringers upon demand, without more, should be interpreted as consent to be sued in federal court. Pet. App. 28a. Finally, the District Court held that infringement accusations and threats of suit could not constitute an unambiguous expression of consent to suit in a federal forum. The court reasoned that an "alternative reasonable construction . . . would be that [the University] believed such threats alone would prompt Genentech to halt what [the University] describes as infringing activities." Pet. App. 28a-29a.

On Genentech's appeal, the Federal Circuit Court of Appeals again reversed. While the parties argued the constitutionality of the abrogation statute as it might be applied to an action against the State as a patent holder, and the court's opinion sets out the arguments advanced by Genentech, the court did not decide whether the statute did or could abrogate the State's immunity from a declaratory judgment suit challenging the validity or application of its patent. Pet. App. 8a-10a. Instead, the court ruled that the University was amenable to Genentech's declaratory judgment suit because it had waived its Eleventh Amendment immunity. The court based this conclusion on a "combination of factors":

> *i.e.*, the creation of federal property rights by federal law, property of national effect that is actionable only through federal judicial power, accompanied by the University's threats of suit in federal court, invoking the remedial power of nationwide injunction, whereby the University voluntarily created a case and controversy under Article III that can be resolved only by federal judicial authority. By these actions, deliberately undertaken and within the University's control, the University has manifested its consent to the Article III judicial power and this declaratory judgment action, and has waived any immunity as an arm of the state.

Pet. App. 13a. The court cited no authority in support of these propositions.

A petition for rehearing was denied on August 5, 1998. Pet. App. 67a. This petition followed.

REASONS FOR GRANTING THE PETITION

A. The Decision Below Raises An Important Question Concerning Waiver of State Eleventh Amendment Immunity.

1. The Decision Below Will Subject States to Federal Court Jurisdiction in Any Case in Which a State Attempts to Protect its Patent Rights.

The Court of Appeals for the Federal Circuit held that the University had waived its Eleventh Amendment immunity and "constructively consented" to the declaratory judgment action brought by Genentech. Pet. App. 11a. Because of the exclusive jurisdiction conferred upon the Federal Circuit with respect to appeals in cases arising under the patent law, 28 U.S.C. § 1295, this issue will most likely not be considered by any other circuit, and the decision below will govern any case in which a state entity owns a patent and is sued in federal court by a private party.

The court below held that the State is "deemed to have waived" its Eleventh Amendment immunity if it:

(1) "chooses to enter the federal arena" (*i.e.*, owns a patent);

(2) "creat[es a] controversy . . . within its sole control and initiative" (*i.e.*, informs another party that it may be infringing that patent); and

(3) "invokes the systems of federal law and federal judicial power for enforcement of federal property rights, actionable only in federal court" (*i.e.*, suggests that it may take legal action against the infringer). Pet. App. 12a.

There is nothing unique about this "combination of factors." Pet. App. 13a. Presumably, they will be repeated whenever a state entity, such as a public university, develops an invention

protectable under the patent law, confronts an apparent infringing practice, and takes some undefined action which creates a "case of actual controversy" under the Declaratory Judgment Act, 28 U.S.C. § 2201(a) (1994).

As illustrated by the facts of this case, there is no specific action that is necessary to create a case or controversy between a patent owner and an alleged infringer. *See Arrowhead Indus. Water, Inc. v. Ecolochem, Inc.*, 846 F.2d 731, 736 (Fed. Cir. 1988) (reversing district court decision that required a letter charging infringement in order to establish declaratory judgment jurisdiction). Instead, the Federal Circuit requires that the "totality of the circumstances" be examined to determine whether the patent holder's actions have produced in the declaratory judgment plaintiff a "reasonable apprehension" that it will be sued for infringement. *Id.; see also Cygnus Therapeutic Sys. v. Alza Corp.*, 92 F.3d 1153, 1159 (Fed. Cir. 1996); *Super Sack Mfg. Co. v. Chase Packaging Corp.*, 57 F.3d 1054, 1058 (Fed. Cir. 1995), *cert. denied*, 516 U.S. 1093 (1996). Despite this inherent uncertainty as to what actions may create a patent case or controversy, a State that is held to have taken action sufficient to meet the standard will, by application of the decision below, be deemed to have waived its immunity from a suit otherwise not maintainable in federal court.

The decision below is not only irreconcilable with this Court's precedents regarding strict construction of waivers of Eleventh Amendment immunity, but it also undermines the Court's holding in *Seminole Tribe of Fla. v. Florida*, 517 U.S. 44 (1996), which clarified that Congress cannot abrogate a State's Eleventh Amendment immunity under its enumerated powers in Article I. In *Seminole Tribe* the Court concluded that:

> Even when the Constitution vests in Congress complete law-making authority over a particular area, the Eleventh Amendment prevents congressional authorization of suits by private parties against unconsenting States. The Eleventh Amendment restricts the judicial power under Article III, and Article I cannot be used to circumvent the constitutional limitations placed upon federal jurisdiction.

517 U.S. at 72-73 (footnote omitted).

Notwithstanding this holding that the States' Eleventh Amendment immunity cannot be abrogated under Congress's Article I powers, the Federal Circuit concluded that an unconsenting State can still be subject to suit in federal court if it owns a patent (an area subject to exclusive federal regulation under Article I) and takes some undefined action to enforce it sufficient to satisfy the standards of the Declaratory Judgment Act. Thus, what cannot be accomplished expressly by abrogation is deemed to have occurred implicitly by waiver.

The issue of when a State can be deemed to have waived its Eleventh Amendment immunity in the patent context calls for immediate resolution by this Court. First, the Court has not waited to review final judgments when a State's Eleventh Amendment immunity is at stake because "the value to the State[ ] of [its] Eleventh Amendment immunity . . . is for the most part lost as litigation proceeds past motions practice." *See Puerto Rico Aqueduct and Sewer Authority v. Metcalf & Eddy, Inc.*, 506 U.S. 139, 145 (1993) (denial of Eleventh Amendment immunity is immediately appealable); *see also Regents of the Univ. of Calif. v. Doe*, 519 U.S. 425 (1997). Second, because of the exclusive jurisdiction of the Federal Circuit over patent appeals, no other circuit is likely to have the opportunity to consider this issue or to reach a contrary conclusion. Third, unless this Court corrects the Federal Circuit's constructive waiver theory, any State that owns a patent and attempts to enforce it risks the "indignity" of being subject "to the coercive process of judicial tribunals at the instance of private parties." *Seminole Tribe*, 517 U.S. at 58 (citation omitted).

Because the Federal Circuit standard for evaluating complaints for declaratory judgments in patent cases is the "totality of the circumstances" and does not require the patent owner to take specified action before a case or controversy is found to exist, States that own patents will be uncertain as to what actions may constitute a constructive waiver of their Eleventh Amendment immunity. This case exemplifies the vague circumstances under which a State can be deemed to have

constructively consented to suit in federal court.[3] The opinion below in effect makes a State choose between forfeiting its patent rights and "constructively" waiving its Eleventh Amendment rights by attempting to protect them. Contrary to the Federal Circuit's decision, the Constitution relieves sovereign States from being put to such a choice.

2. The Waiver-By-Constructive-Consent Theory of the Federal Circuit Cannot be Reconciled With This Court's Precedents Regarding Waivers of Eleventh Amendment Immunity.

The Federal Circuit's holding that a State "constructively consents" to suit in federal court by threatening to enforce a state-owned patent cannot be reconciled with this Court's precedents regarding waivers of Eleventh Amendment immunity, as evidenced by the fact that the Federal Circuit cites *not a single case* from this or any other court in support of its holding.

The decision below contradicts this Court's repeated admonitions that a court may find a waiver of a State's Eleventh Amendment immunity in only the most exacting circumstances. As stated in *Edelman v. Jordan*, 415 U.S. 651 (1974), "[c]onstructive consent is not a doctrine commonly associated with the surrender of constitutional rights" and has "no place" in Eleventh Amendment jurisprudence. *Id.* at 673. Therefore, a State can be found to have waived its sovereign immunity only when such waiver is stated "by the most express language or by such overwhelming implications from the text as [will] leave no room for any other reasonable construction." *Id.* (citation omitted).

Again and again, the Court has adhered to this rigorous test for determining if and when a State can be found to have waived its Eleventh Amendment immunity from suit in federal court. *See, e.g., Pennhurst State Sch. & Hosp. v. Halderman*, 465 U.S. 89, 99

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[3] *See supra note 2.* The University has not contended that at the time it was sued it had not taken actions sufficient to constitute a "case of actual controversy" within the meaning of the Declaratory Judgment Act—only that such actions as it did take were insufficient to waive its Eleventh Amendment immunity.

(1984) ("The State's consent [to suit in federal court must] be unequivocally expressed."); *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 241 (1985) ("The test for determining whether a State has waived its immunity from federal-court jurisdiction is a stringent one."); *Port Authority Trans-Hudson Corp. v. Feeney*, 495 U.S. 299, 306 (1990) ("Sensitive to the values underlying the Eleventh Amendment, the Court has required that consent to suit in federal court be express.").

As the Court explained in *Atascadero*:

> A State may effectuate a waiver of its constitutional immunity by a state statute or constitutional provision, or by otherwise waiving its immunity to suit in the context of a particular federal program. In each of these situations, we require an *unequivocal indication* that the State intends to consent to federal jurisdiction that would otherwise be barred by the Eleventh Amendment.

473 U.S. at 238 n.1 (emphasis added).

Because a State's waiver of its Eleventh Amendment immunity must be clear and unmistakable, the Court has also repeatedly held that a State's general waiver of sovereign immunity allowing it to be sued in its own courts does not constitute waiver of its Eleventh Amendment immunity from suit in federal court. *See, e.g., Atascadero*, 473 U.S. at 241; *Pennhurst*, 465 U.S. at 99 n.9; *Florida Dep't of Health and Rehabilitative Servs. v. Florida Nursing Home Assoc.*, 450 U.S. 147, 150 (1981); *Great N. Life Ins. Co. v. Read*, 322 U.S. 47, 54-55 (1944). With respect to California specifically, the Court has held that the State's general waiver of sovereign immunity and its constitutional provision allowing arms of the State to sue and be sued may not be construed as waivers of the State's Eleventh Amendment immunity. *See Atascadero*, 473 U.S. at 241 (holding that the general waiver of sovereign immunity in Cal. Const. art. III, § 5, does not constitute a waiver of Eleventh Amendment immunity because it does not "specifically indicate the State's willingness to be sued in federal court"); *Great N. Life Ins. Co.*, 322 U.S. at 53 (holding that "sue and be sued" provision in Cal.

Const. art. IX, § 9(f), is "not presumed to include suit in federal court"). Nonetheless, in the decision below, the Federal Circuit found it noteworthy that "the state of California has broadly granted complainants access to state courts, and that the University is the subject of a specific sue-and-be-sued provision, Cal. Const. art. IX, § 9(f)." Pet. App. 11a.

In the absence of an express waiver of Eleventh Amendment immunity, the federal courts have looked to whether a state official by his or her conduct might have waived the State's immunity from suit pursuant to an authority granted under state law. In *Ford Motor Co. v. Department of Treasury*, 323 U.S. 459 (1945), where the Attorney General of Indiana defended on the merits a suit for a state tax refund brought as a diversity case in federal court, this Court concluded that the Attorney General did not have the power, under state law, to make case-by-case waiver decisions, and therefore that the federal courts lacked jurisdiction over the dispute because no properly authorized state official had waived immunity. *See* 323 U.S. at 464-68. To determine whether a state official or entity has authority to waive Eleventh Amendment immunity, the *Ford Motor* case directed federal courts to look to the "general policy of the state as expressed in its Constitution, statutes and decisions." *Id.* at 467. Faithful to *Ford Motor*, in the absence of a statute expressly waiving Eleventh Amendment immunity, the courts of appeals have looked for a clear expression in state law allowing particular state officials to waive sovereign immunity.[4]

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[4] For example, in *Freimanis v. Sea-Land Serv., Inc.*, 654 F.2d 1155 (5th Cir. 1981), the Court of Appeals for the Fifth Circuit held that Louisiana did not waive its Eleventh Amendment immunity when an attorney representing the state Department of Transportation entered into a consent judgment with the defendant, because the attorney had no clearly expressed authority to waive the immunity. *Id.* at 1160. Similarly, in *Estate of Porter v. Illinois*, 36 F.3d 684 (7th Cir. 1994), the Court of Appeals for the Seventh Circuit held that removing a case to federal court did not constitute a waiver of Eleventh Amendment immunity because the Illinois Attorney General was not authorized to waive the immunity. *Id.* at 691; *see also Silver v. Baggiano*, 804 F.2d 1211, 1214-15 (11th Cir. 1986) (holding removal by state officials of suit containing state law claims not a valid waiver of Eleventh Amendment

The decision below stands in sharp contrast to *Ford Motor Co.* and the appellate decisions that follow it. The Federal Circuit not only did not look to California's "Constitution, statutes and decisions" to determine who had the authority to waive the State's immunity, and under what circumstances, it did not even identify the official who purportedly waived it in this case. In fact, the opinion is remarkably silent as to the specific actions that were taken, and by whom, sufficient to waive the State's immunity, except for the court's general observation that it "place[d] great weight on the University's voluntary and deliberate creation of a case or controversy that can be resolved only in federal courts." Pet. App. 11a.

The waiver theory adopted by the Federal Circuit, which will govern all future cases involving state-owned patents, thus ignores two well-established doctrines governing when a State will be deemed to have waived its Eleventh Amendment immunity: that a waiver must be clear and unmistakable, and that it must have been accomplished by an official with the authority, under state law, to waive the State's immunity from suit in federal court. In their place, the Federal Circuit would accept, as sufficient to waive a State's constitutional immunity, the results of an undefined case-by-case inquiry into the "totality of the circumstances"—even when these include only the unofficial acts of unauthorized persons who may not even be state officials. The novelty of the Federal Circuit court holding, its deviation from this Court's precedents, and its impact on the adjudication of disputes relating to state-owned patents all support this Court's review of the decision at this time.

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immunity where officials were not authorized to waive immunity). Likewise, in *In re Creative Goldsmiths,* 119 F.3d 1140 (4th Cir. 1997), the Court of Appeals for the Fourth Circuit concluded that the State of Maryland's defense on the merits of a suit arising out of a bankruptcy proceeding did not amount to a waiver of Eleventh Amendment immunity because the Maryland Attorney General lacked authority to waive the State's immunity from suit in federal court.

3. The Decision Below Undermines Constitutional Limitations on Congressional Power to Abrogate State Immunity.

The Federal Circuit's expansive new concept of constructive waiver is likely to have the effect of accomplishing what the *Seminole Tribe* case held Congress could not accomplish by statute. In *Seminole Tribe*, this Court held that the power to abrogate Eleventh Amendment immunity did not inhere in Article I enumerated powers, although the Court recognized that abrogation could in appropriate cases be accomplished by exercise of enforcement power conferred by the Fourteenth Amendment. The Federal Circuit's waiver concept knows no such limitation and, if applied whenever a State engages in activity that is an appropriate subject of congressional action, would effectively abrogate the States' immunity no less completely than if Congress did have the authority denied it in *Seminole Tribe*. For one thing is clear: "the power to define waiver can become the functional equivalent of the power to abrogate." *Aer-Aerotron v. Texas Dep't of Transp.*, 104 F.3d 677, 681 (4th Cir.. 1997); *accord In re Burke*, 146 F.3d 1313, 1317 n.8 (11th Cir. 1998).

Unless this Court rejects the Federal Circuit's new waiver concept, States will be forced in a broad range of cases to defend against the argument that by engaging in activity subject to federal regulation they have implicitly consented to suit in federal court. In this manner, the strong values that underlie the Eleventh Amendment immunity will be sapped of all vitality. *See Port Authority Trans-Hudson Corp.*, 495 U.S. at 305 (abrogation and waiver of state sovereign immunity both "upset[] the fundamental constitutional balance between the Federal Government and the States"), *quoting Dellmuth v. Muth*, 491 U.S. 223, 227 (1989).

The reasons that the Federal Circuit gives for such a far-reaching notion of waiver find no support in this Court's Eleventh Amendment jurisprudence. The court below held that a State is deemed to have constructively waived its immunity when it "chooses to enter the federal arena, when [its] action in creating the controversy is within its sole control and initiative, and when [it] invokes the systems of federal law and federal judicial power for enforcement of federal property rights." Pet. App. 12a. Each of these factors is insufficient to find that a State has

constructively consented to be sued in federal court, and the court's apparent conclusion that a waiver can be found in a "combination" of otherwise insufficient factors is likewise without basis in this Court's precedents.

First, the Federal Circuit found it significant that the University chose "to enter the federal arena" by owning a patent, which is a "federally-created property right[ ] of national scope." Pet. App. 12a, 13a. At the same time, the court rejected the idea that a State could be deemed to have waived its immunity "simply by the act of obtaining federal patents," Pet. App. 11a, apparently in recognition that any such holding would be contrary to *Seminole Tribe*'s observation that "the background principle of state sovereign immunity embodied in the Eleventh Amendment is not so ephemeral as to dissipate when the subject of the suit is an area . . . that is under the exclusive control of the Federal Government." 517 U.S. at 72; *cf. Edelman v. Jordan*, 415 U.S. 651 (1974) (State does not consent to suit in federal court through "mere" participation in federally-funded program).

Second, the court pointed to the fact that the State had "created" a case or controversy, by taking some unspecified action that put Genentech in reasonable apprehension of being sued for infringement. But in any case in which a State is a defendant it will *always* have taken actions that create a case or controversy; those actions then form the jurisdictional basis of the plaintiff's complaint. If this were the standard for waiver of Eleventh Amendment immunity, a State would always be subject to suit in federal court. The fact that this case is brought as a declaratory judgment action rather than a suit for damages or injunctive relief does not change the analysis, because "an unconsenting State is immune from suits . . . regardless of the nature of the relief sought." *Pennhurst,* 465 U.S. at 100.

Third, the Federal Circuit believed that the University had "invoke[d] the systems of federal law and federal judicial power for enforcement of federal property rights" by threatening suit against Genentech. Pet. App. 12a. However, as the District Court explained in dismissing Genentech's complaint against the University, threats of suit cannot constitute an unambiguous expression of consent to suit in a federal forum because "[a]n alternative reasonable construction" would be that threats of

litigation are made to prompt an infringer to cease its infringing activities. Pet. App. 28a-29a. Thus, this case is not akin to one in which the State has invoked sovereign immunity to protect itself against the interposition of defenses to an action in federal court that it has voluntarily entered. *See Gunter v. Atlantic Coast Line R. Co.*, 200 U.S. 273, 284 (1906) ("[W]here a state voluntarily becomes a party to a cause, and submits its rights for judicial determination . . . [the state] cannot escape the result of its own voluntary act by invoking the prohibitions of the Eleventh Amendment."); *see also Missouri v. Fiske*, 290 U.S. 18, 20, 28 (1933).

Although not cited by the court in the decision below, the only case that arguably could support its theory of "constructive consent" is *Parden v. Terminal Ry.*, 377 U.S. 184 (1964), one of the few instances in which this Court has found a State to have implicitly waived its Eleventh Amendment immunity.[5] *Parden* held that by beginning to operate an interstate railroad twenty years after Congress had enacted, under its Commerce Clause power, the Federal Employers' Liability Act ("FELA"), the State of Alabama had impliedly consented to being sued in federal court by its injured railroad employees on FELA claims. In finding waiver, the Court relied upon the statute's provision for a suit against a class of defendants which included the States as operators of railroads.

The *Parden* decision has been subject to considerable erosion since it was decided in 1964. In 1973, the Court refused to apply the same reasoning to subject a state to suit under the Fair Labor Standards Act, 29 U.S.C. § 216(b), on the grounds that Congress had not expressly done so and "would not be presumed to take such action silently." *Employees v. Department of Public Health & Welfare of Missouri*, 411 U.S. 279, 284-85 (1973). In 1987, the Court expressly overruled *Parden* "to the extent that [its reasoning] is inconsistent with the requirement that an abrogation of Eleventh Amendment immunity by Congress must be expressed

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[5] Before the Federal Circuit in this case, the United States argued as intervenor that, under *Parden*, the University had consented to be sued, waiving any immunity when it acted to obtain, to license, and to enforce its patent. Pet. App. 13a n.7.

in unmistakably clear language." *Welch v. Texas Dep't of Highways and Pub. Transp.*, 483 U.S. 468, 478 (1987) (citations omitted). In 1991, the overruling of *Parden*'s waiver holding in its original FELA context was confirmed. *See Hilton v. South Carolina Pub. Rys. Comm'n*, 502 U.S. 197, 199-201 (1991).

In the aftermath of *Seminole Tribe*, a number of courts have questioned whether *Parden* can still provide a basis for finding "constructive consent" to suit in federal court in any context. *See Chavez v. Arte Publico Press*, 139 F.3d 504, 508 (5th Cir. 1998) ("A fair reading of *Seminole* inescapably suggests that we must 'drop the other shoe,' and declare that Congress cannot condition states' activities that are regulable by federal law upon their 'implied consent' to being sued in federal court.") (footnote omitted), *rehearing en banc granted*, (5th Cir. Oct. 1, 1998); *Abril v. Commonwealth*, 145 F.3d 182 (4th Cir. 1998) (whether *Parden* doctrine of implied waiver survives *Seminole Tribe* is "a matter not wholly free of doubt"); *Close v. New York*, 125 F.3d 31, 40 (2d Cir. 1997) ("[I]f we were to recognize constructive consent every time a State acted in a field regulated by Congress, we would vitiate the very premise upon which *Seminole* was decided."); *Digiore v. Illinois*, 962 F. Supp. 1064, 1075 (N.D. Ill. 1997) ("What Congress is prohibited from doing by abrogation, it should not be permitted to accomplish through the back door of waiver."). *But see Premo v. Martin*, 119 F.3d 764, 770-71 (9th Cir. 1997), *cert. denied*, 118 S. Ct. 1163 (1998) (finding implied waiver where state participation in cooperative federal-state program was expressly conditioned upon submitting grievance to arbitration which was subject to federal judicial review); *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Bd.*, 131 F.3d 353, 363 (3d Cir. 1997) (accepting *Parden* theory of implied waiver but finding no waiver where field of activity was a core governmental function), *petition for writ of certiorari pending*, No. 98-149.

This case affords the Court an opportunity to clarify whether a State can be deemed to have "constructively consented" to suit in federal court, under the authority of *Parden* or otherwise, simply by engaging in activity that is subject to regulation under Congress's Article I powers, including acts in furtherance of the State's interests. Such an expansive theory of constructive waiver

seems irreconcilable with the *Seminole Tribe* decision and the values that that decision promotes.

For all the foregoing reasons, the decision of the court below on the waiver question presents an important issue that calls for resolution by this Court.

B. If the State Cannot Be Deemed to Have Constructively Waived its Eleventh Amendment Immunity, The Court Should Decide Whether Congress Has Abrogated That Immunity.

If this Court disagrees with the Federal Circuit that the State has constructively consented to suit in federal court, this case then presents the question whether Congress has abrogated the States' Eleventh Amendment immunity with respect to declaratory judgment suits brought under the Patent Act.

Prior to this Court's decision in *Seminole Tribe*, the Federal Circuit held that Congress's abrogation of state's Eleventh Amendment immunity in the Patent Act (35 U.S.C. §§ 271(h) and 296) "necessarily includes" subjecting a State that owns a patent to a suit asserting that the patent is invalid. Pet. App. 48a. The court held that the abrogation provision was not limited to instances in which the State was an infringer but also included suits "for any other violation" under the Patent Act. Pet. App. 44a-46a. Because, in its view, an action seeking declaration of patent invalidity "arises under the patent law," it concluded that construing the abrogation provision not to include a declaratory action against a state patent owner "would contravene the legislative purpose of conferring equal status on states and nongovernmental entities under the patent law." Pet. App. 47a-48a.

On remand, after the *Seminole Tribe* decision, the District Court held that the Patent Act's abrogation of Eleventh Amendment immunity could not be construed to allow declaratory judgment suits against the State as patent holder. The court held that such an abrogation would be unconstitutional because it could not be upheld under the authority granted Congress by Section 5 of the Fourteenth Amendment. Pet. App. 26a. As the District Court explained:

> UC is the patent owner, and Genentech has commenced a declaratory judgment action against UC. Consequently Genentech has no property right in the subject patent. Moreover, Genentech has no protectable property right of which it has been deprived without due process of law. According to UC, Genentech is infringing the '877 patent in its manufacture of certain substances. Genentech is free to manufacture said substances until UC not only lodges an infringement action, but also secures either injunctive relief or final judgment in its favor. In either event, Genentech will have gotten due process of law before a deprivation occurs.

Pet. App. 26a. Because the court concluded that interpreting the abrogation of state immunity in the Patent Act to include declaratory judgment actions against the State would be unconstitutional, it interpreted the statute so as not to allow such suits. *Id.*

On appeal, the Federal Circuit considered at some length whether or not Congress could constitutionally abrogate state Eleventh Amendment immunity in declaratory judgment patent actions, but ultimately declined to decide the issue, concluding instead the University had constructively consented to waiver of that immunity. Pet. App. 8a-10a. If this Court were to reverse the Federal Circuit on the waiver issue, the question of whether that immunity has been abrogated would then be ripe for decision.[6]

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[6] While the Court ordinarily does not consider questions not specifically passed on by the Court of Appeals, the practice is not proscribed by any rule, and the Court has frequently taken up such questions, particularly when the issue has been raised and argued below. *See Capital Cities Cable, Inc. v. Crisp*, 467 U.S. 691, 697-98 (1984); *see also Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313, 320 n.6 (1971) (patent case). Particularly analogous is *Mitchell v. Forsyth*, 472 U.S. 511 (1985). There, the District Court decided issues of absolute immunity and qualified immunity against the Attorney General. On appeal, the Court of Appeals upheld the absolute immunity ruling but declined to reach the qualified

The District Court correctly held that Congress had no constitutional authority that would enable it to abrogate a state patent owner's Eleventh Amendment immunity in declaratory judgment actions. Under the teaching of *Seminole Tribe*, that authority is not encompassed in its Article I power to "promote the Progress of Science and useful Arts," U.S. Const. art. I, § 8[8]. Nor would it be a proper exercise of Congress's enforcement power under Section 5 of the Fourteenth Amendment, because there is no real or threatened deprivation of rights encompassed by that Amendment's provisions that would be remedied by abrogating state immunity against declaratory actions.

The District Court's opinion regarding the limits of Congress's Section 5 authority in the patent context is consistent with this Court's later decision in *City of Boerne v. Flores*, 117 S. Ct. 2157 (1997). In the *City of Boerne* case, the Court struck down the Religious Freedom Restoration Act of 1993 ("RFRA"), 107 Stat. 1488, 42 U.S.C. 2000bb *et seq.*, as an invalid exercise of Congress's enforcement power under Section 5. The Court held that RFRA--which subjected state and local laws of general applicability to strict scrutiny if they substantially burdened the exercise of religion--could not be sustained under Congress's Section 5 authority because the "legislative record lacks examples of modern instances of generally applicable laws passed because of religious bigotry." *Id.* at 2169.

As the Court explained:

> Congress does not enforce a constitutional right by changing what the right is. It has been given the power "to enforce," not the power to determine what constitutes a constitutional violation. Were it not so, what Congress would be enforcing would no longer be, in any

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immunity issue. The certiorari petition raised both questions and the Court, after rejecting the Court of Appeals' basis for not reaching the qualified immunity issue, proceeded to decide that issue, finding that it was legal in nature and required no further record development. A similar approach would be warranted here for the abrogation issue if the Court were to reject the Court of Appeals' waiver basis of decision.

> meaningful sense, the "provisions of [the Fourteenth Amendment]."

117 S. Ct. at 2164. Because the statute went beyond a "remedial" or "preventive" purpose, the Court concluded, RFRA could not be upheld under Section 5. *Id.* at 2164.

Construing the patent law's abrogation of Eleventh Amendment immunity to allow a State to be sued as a defendant in an action seeking a declaration as to the validity of a state-owned patent likewise has no "remedial" purpose that can be explained as a constitutional exercise of Congress's Section 5 powers under the *City of Boerne* standard. As the District Court found, Genentech has no protectable property right of which it has been deprived without due process of law. Pet. App. 26a. The property right that is the subject matter of the litigation is the *State's* patent, not Genentech's. Genentech's property will be affected only if the University were to proceed with an infringement action and were able to secure a final judgment in its favor. The fact that property rights might be affected as a result of a judicial proceeding is not a "deprivation . . . without due process of law" protected by the Fourteenth Amendment. There being no constitutional violation requiring redress, Congress does not have the authority under Section 5 to enact legislation to enforce the Amendment's provisions.[7]

City of Boerne recognized that Congress's Section 5 authority might extend beyond prohibition of pure constitutional violations, but it required a "congruence and proportionality between the injury to be prevented or remedied and the means adopted to that end." 117 S. Ct. at 2164. In this case, Congress has no authority to act because abrogating a State's Eleventh Amendment

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[7] Even viewed from the standpoint of a patent holder claiming infringement by a State, there is a real question of Congress's authority under the Fourteenth Amendment to abrogate state immunity. Property rights in patents do not exist independent of the federal statutes creating them (*see Graham v. John Deere Co.*, 383 U.S. 1, 5-9 (1966); *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 510 (1917)), and Congress has not been empowered under Article I to include among the property rights of a patentee the right to sue a State in federal court. *See Seminole Tribe*, 517 U.S. at 72-73.

immunity with respect to declaratory judgment actions does not prevent or remedy a constitutional injury to the *plaintiff*, but instead allows the plaintiff to haul an unconsenting State into the federal forum of the plaintiff's choice to litigate the question whether *the State* has an enforceable property right. This not only fails the proportionality standard of *City of Boerne*, it also, like the court of appeals' expanded waiver theory, would go far to eradicate the limitation on congressional power on which the *Seminole Tribe* decision was grounded.

The issue whether the patent law abrogation provision extends to cases involving state-owned patents equates in importance with the waiver question, and like the latter question will likely not be addressed by other circuit courts. Given the close relationship of the two questions, sound development of the law would be advanced were this Court, if it resolves the waiver issue in favor of the University, also to decide the abrogation question.

C. This Case Presents An Opportunity For the Court to Resolve Several Related Questions of Importance Concerning the Immunity of States From Federal Court Suits in the Patent Context.

In *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 148 F.3d 1343 (Fed. Cir. 1998), the Court of Appeals for the Federal Circuit held that the abrogation of Eleventh Amendment immunity in patent cases was sustainable as an appropriate exercise of Congressional authority under Section 5 of the Fourteenth Amendment when the State was being sued as the alleged infringer. A petition for writ of certiorari has been filed in that case (No. 98-531), and is pending as of the filing of this petition.

This case and the *College Savings Bank* patent case present complementary issues concerning the application of States' Eleventh Amendment immunity in the context of federal patent statutes. This case presents the question whether waiver of Eleventh Amendment immunity can be achieved by implication, whether or not it is within the power of Congress to accomplish directly by abrogation, whenever a state instrumentality enters an area that is the subject of federal law or regulation. The two cases

together question the power of Congress expressly to abrogate state immunity in the context of the State as patent owner and the State as alleged infringer.[8]

Joint consideration of these issues would promote efficient judicial administration and would be particularly beneficial to litigants. By reviewing the decision below, this Court will be in a position, particularly if it also grants certiorari in the *College Savings Bank* patent case, to announce a coherent and complete set of holdings as to the application of the Eleventh Amendment in an important area of federal law.[9]

Apart from these reasons for joint consideration of the cases, the issues presented in this case are independently worthy of Supreme Court review at this time. The waiver holding of the Federal Circuit Court of Appeals is so expansive, and so inconsistent with this Court's repeated teaching that state waivers of Eleventh Amendment immunity are to be recognized only in the most clear and explicit cases, that it will likely lead to similar claims of waiver across the full spectrum of federal court subject matter jurisdiction. In addition to the burden on federal courts that such an increase in claims against state entities is likely to impose, state officials will be forced to defend themselves in

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[8] Also pending before the Court as the subject of a petition for a writ of certiorari is *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 131 F.3d 353 (3d Cir. 1997), *petition for certiorari pending*, No. 98-149. That case involves the validity of the abrogation provision in the Lanham Act, which was invoked in a suit against a state entity claimed to have falsely advertised its own financial products to the detriment of a competitor. The Third Circuit Court of Appeals held the abrogation clause unconstitutional as applied to that suit. The case also presents an issue of claimed waiver of state immunity under the *Parden* case.

The statutory abrogation and *Parden* issues are also being considered by the Fifth Circuit Court of Appeals *en banc* in the copyright context in *Chavez v. Arte Publico Press*, 139 F.3d 504 (5th Cir. 1998), *decision vacated and petition for rehearing en banc granted*, (5th Cir. Oct. 1, 1998).

[9] The University expects to submit an *amicus* brief in support of the certiorari petition in No. 98-531.

federal courts in precisely the way that this Court has said, in *Seminole Tribe* and other cases, is not consonant with the sovereign immunity policy that underlies the Eleventh Amendment.

In addition, disposition at this time of the statutory abrogation issue, which would be ripe for resolution if the Court rejects the Federal Circuit's new waiver concept, would be especially beneficial. The position advanced by Genentech and set forth in the Federal Circuit's opinion would validate exercise of the abrogation authority, as an exercise of Fourteenth Amendment enforcement power, even where no deprivation of any property right of the plaintiff was involved. Such an unwarranted expansion of the Fourteenth Amendment enforcement power would diminish the Eleventh Amendment immunity in the same way as would the Federal Circuit's waiver theory.

CONCLUSION

For the reasons set forth above, this Court should grant the petition for a writ of certiorari to the United States Court of Appeals for the Federal Circuit.

Respectfully submitted,

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November 3, 1998

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GENENTECH, INC.,

Plaintiff-Appellant,

v.

REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Defendant-Appellee,

and ELI LILLY AND COMPANY,

Defendant,

and UNITED STATES,

Intervenor.

97-1099, 96-1361

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

May 4, 1998, Decided

Before NEWMAN, LOURIE, and RADER, Circuit Judges.

Opinion for the court filed by Circuit Judge PAULINE NEWMAN.

PAULINE NEWMAN, Circuit Judge:

Genentech, Inc. appeals from the dismissal, on Eleventh Amendment grounds, of its declaratory action in the United States District Court for the Southern District of Indiana against the

Regents of the University of California ("the University") and Eli Lilly and Company ("Lilly").[1] The litigation relates to United States Patent No. 4,363,877 ("the '877 patent") owned by the University and exclusively licensed to Lilly. In *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931, (Fed. Cir. 1993) (*Genentech I*), this court held that the Eleventh Amendment of the Constitution[2] did not insulate the University from this suit, in view of the enactment in 1992 of Public Law 102-560, codified at 35 U.S.C. §§ 271(h) and 296, which abrogated the states' Eleventh Amendment immunity from suit for any violation under Title 35.

The constitutionality of Public Law 102-560 was not challenged in *Genentech I*, for its enactment was consonant with the holding of *Pennsylvania v. Union Gas Co.*, 491 U.S. 1 (1989), that Article I of the Constitution empowers abrogation of state immunity when appropriate to the federal purposes of Article I. Thus the only issue requiring constitution-based interpretation in *Genentech I* was whether the abrogation in Public Law 102-560 included declaratory actions against the state for claims under Title 35 other than patent infringement by the state. Concluding that it did, the Federal Circuit observed that the statute was explicitly directed not only to infringement but also to "any other violation under this title." Implementing this scope, the court stated: "There is no exception in Public Law 102-560 that preserves state immunity depending on the procedure by which issues are raised. Indeed, such an exception would contravene the legislative purpose of conferring equal status on states and nongovernmental entities under the patent law." *Genentech I*, 998 F.2d at 943.

The litigation proceeded by way of multidistrict consolidation of six cases involving the '877 and several other patents, involving

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[1] *Genentech, Inc. v. Regents of the Univ. of Cal.*, 939 F.Supp. 639 (S.D. Ind. 1996).

[2] The Eleventh Amendment provides:

> XI. The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.

Genentech, Lilly, and the University. *See In re Regents of the Univ. of Cal.*, 964 F.2d 1128 (Fed. Cir. 1992) (holding that the Eleventh Amendment did not shield a state from multidistrict procedures under the Federal Rules when the state was otherwise properly before the federal courts). Four of these cases have been decided or settled, as have all issues between Genentech and Lilly. Remaining are this Indiana district court action and its later-filed "mirror-image" in the Northern District of California, where the University is plaintiff and Genentech is defendant but the issues are otherwise generally the same.

Upon completion of the multidistrict proceedings this Indiana action was resumed. Genentech seeks, *inter alia*, declaration of patent invalidity, unenforceability, and non-infringement of the '877 patent, and the University has counterclaimed for patent infringement and other relief. Both sides have pled violations of laws in addition to the patent law, including federal and state antitrust and other laws. The existence of a case of actual controversy, 28 U.S.C. § 2201 (Declaratory Judgment Act), is not disputed.

While this case was before the Indiana district court the Supreme Court decided *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), holding that Article I of the Constitution did not empower Congress to abrogate a state's Eleventh Amendment immunity and expressly overruling the Court's contrary decision in *Pennsylvania v. Union Gas*. The district court then held that Public Law 102-560 must now be deemed to be in violation of the Eleventh Amendment, at least as applied in *Genentech I* to encompass a declaratory action against the state when the state is the patent owner.[3]

For the reasons we shall discuss, we conclude that in light of *Seminole Tribe* this court's ruling in *Genentech I* can not stand on the ground on which it was premised, whereby the unchallenged

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[3] California law establishes the University as a branch of the State of California "equal and coordinate with the legislature, the judiciary, and the executive", a public corporation, and a public trust. 30 Cal. Ops. Att'y Gen. 162 (1957). The status of the University as an arm of the state is not challenged.

constitutionality of Public Law 102-560, as based on Article I and *Pennsylvania v. Union Gas*, was interpreted as embracing all actions under Title 35 including declaratory actions. The district court, observing that Article I is no longer an available constitutional empowerment for legislative abrogation of Eleventh Amendment immunity, expressed the view that the constitutionality of Public Law 102-560 was sustainable under section 5 of the Fourteenth Amendment if the statute were limited to situations wherein the state is charged with patent infringement. We conclude that it is not necessary here to decide whether Public Law 102-560 may be interpreted or applied so as to sustain its constitutional validity, for on the facts of this case we conclude that the University waived its Eleventh Amendment immunity and consented to this suit.

I

APPEAL NO. 97-1099

A

Legislative abrogation of the Eleventh Amendment immunity of states requires that two criteria be met. First, there must be an unequivocal expression of congressional intent to abrogate the immunity, in the form of a "clear legislative statement." *Seminole Tribe*, 517 U.S. at 55; *Blatchford v. Native Village of Noatak*, 501 U.S. 775, 786 (1991); *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 246 (1985). Public Law 102-560 was enacted in 1992 for the purpose of abrogating Eleventh Amendment immunity in patent cases, to close a "sovereign immunity loophole" of which states were said to be taking unfair advantage. 137 Cong. Rec. 53930-02 (daily ed. Mar. 21, 1991) (statement of Sen. DeConcini). The legislative statement is indeed unequivocally expressed, and is codified in Title 35 as follows:

35 U.S.C. § 271 Infringement of patent

* * *

> (h) As used in this section, the term "whoever" includes any State, any instrumentality of a State,

> and any officer or employee of a State or instrumentality of a State acting in his official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.
>
> **35 U.S.C. § 296 Liability of States, instrumentalities of States, and State officials for infringement of patents**
>
> (a) ***In General.***--Any State, any instrumentality of a State, and any officer or employee of a State acting in his official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person . . . for infringement of a patent under section 271, or for any other violation under this title.
>
> (b) ***Remedies.***--In a suit described in subsection (a) for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent that such remedies are available for such a violation in a suit against any private entity. Such remedies include damages, interest, costs, and treble damages . . . .

In *Genentech I*, the court applied § 296(a), that the state "shall not be immune . . . for any other violation under this title," to include actions for declaration of patent invalidity and noninfringement, in order to achieve the remedial purpose of § 296(b) that the state shall be subject to the same remedies as "any private entity." 998 F.2d at 941-43.

The second criterion of legislative abrogation is that Congress must have acted "pursuant to a valid exercise of power." *Seminole Tribe*, 517 U.S. at 57-58 (quoting *Green v. Mansour*, 474 U.S. 64, 68 (1985)). Congress ascribed its empowerment for this enactment to the Commerce Clause of Article I, the Patent/Copyright Clause of Article I, and section 5 of the Fourteenth Amendment. *See* S. Rep.

No. 102-280, at 7-8 (1992), *reprinted in* 1992 U.S.C.C.A.N. 3087, 3093-94. Although the constitutionality of congressional enactments does not depend on recital of the source of the power that is being exercised, *Woods v. Cloyd W. Miller Co.*, 333 U.S. 138, 144 (1948), we take note that Congress did state its authority, as well as its intent to overrule certain decisions of the Federal Circuit which held that the states were immune, under the Eleventh Amendment, from suit for patent infringement.

The Court, emphasizing the fundamental principles of the federal-state relationship that underlie the Eleventh Amendment, held in *Seminole Tribe* that Article I legislative authority did not empower Congress to abrogate state immunity, and overruled *Pennsylvania v. Union Gas*. In *Union Gas* the Court had sustained the constitutionality of legislation that required the states to conduct environmental cleanup under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980; the Court drew on the Interstate Commerce Clause of Article I to empower Congress to enact, and federal courts to enforce, this legislation. Similarly, in enacting the legislation at issue in *Seminole Tribe* Congress relied on the authority of the Indian Commerce Clause of Article I to support a provision of the Indian Gaming Regulatory Act which subjected the state to suit in federal court if the state did not negotiate in good faith with the Indian tribe in implementation of the Act. The Court observed that insofar as legislative and judicial power with respect to states is concerned, there is no principled distinction between the Interstate Commerce Clause, on which *Union Gas* was grounded, and the Indian Commerce Clause. Pointing up the breadth of its decision, the Court explained:

> Even when the Constitution vests in Congress complete law-making authority over a particular area, the Eleventh Amendment prevents congressional authorization of suits by private parties against unconsenting states. The Eleventh Amendment restricts the judicial power under Article III, and Article I cannot be used to circumvent the constitutional limitations placed upon federal jurisdiction.

Seminole Tribe, 517 U.S. at 72-73. The Court did not ignore that its ruling could have an impact on the copyright and patent laws,

although this impact was not explored. Justice Stevens mentioned it in dissent, *id.* at 77, and the Court's opinion suggested possible recourse to the procedure of *Ex parte Young*, 209 U.S. 123 (1908). *Id.* at 72-73 n.16. Although we doubt that these remarks were intended to resolve all aspects of the complex issues of intellectual property rights involving the states, the Court's reference to "complete [federal] law-making authority" is readily read as embracing the patent law.

The Court recognized that Article I is not the sole source of federal power with respect to states, and observed that the statute at issue in *Seminole Tribe* did not implicate section 5 of the Fourteenth Amendment. Further, the Court did not discuss whether there may be actions taken by a state agency that are not state actions for Eleventh Amendment purposes, or mention the vast variety of a state's interactions with private interests that have been litigated on particular facts, with varying results. The Court did observe that a state can always waive its immunity and consent to suit. However, the ruling in *Seminole Tribe* appears to have removed Article I alone as the source of congressional power to abrogate Eleventh Amendment immunity.

The district court held that the statutory abrogation in Public Law 102-560, in the breadth necessary to support this declaratory action against the University, requires the support of Article I, and is not supported by the Fourteenth Amendment. Genentech argues that Public Law 102-560 is constitutional as it was written and as interpreted in *Genentech I*, reasoning that this statutory abrogation does not depend solely on the Commerce Clause of Article I, as did *Union Gas*, but derives authority from the particular nature and policy of the Patent Clause of Article I, and broad property principles in accordance with the Fourteenth Amendment. Genentech argues that if it is deprived of the right to bring this declaratory action against the University, it is deprived of property and liberty interests without due process of law, behavior expressly prohibited by the Fourteenth and Fifth Amendments. Genentech also raises questions of equal protection of the law if the University can sue Genentech when and where it pleases, while Genentech is barred from seeking remedy in the courts on the same issues.

Genentech argues that the overruling of *Union Gas* does not preclude all legislative reliance on Article I to provide constitutional

authority for Public Law 102-560. Distinguishing this legislation from that in *Union Gas*, Genentech points out that Public Law 102-560 does not compel the state to act under federal supervision or compulsion, unlike the legislation in *Union Gas* which authorized the federal courts to compel the state to clean up its waste. Distinction may also be drawn from the facts of *Seminole Tribe*, where the challenged legislation required the state governor to negotiate with the Tribe. In contrast, Genentech points out that the University has acted voluntarily, not by compulsion of statute; that the University has chosen to obtain the benefits of the federal patent system, and thereby has acquired property rights that are not confined to the territory of a particular state. The University has acted to enforce these property rights throughout the nation, through the authority of the federal judicial system. Thus Genentech argues that the Patent Clause of Article I empowers the enactment of Public Law 102-560 and supports its constitutionality as interpreted in *Genentech I*.

Indeed, the character of the Patent/Copyright Clause of Article I, embodying the national policy of fostering a creative and innovative society, imposes cautious restraint when interpreting this clause. Although the district court read *Seminole Tribe* as foreclosing any congressional empowerment based on any part of Article I, we do not deem it necessary to speak so broadly, or to foreclose any contribution of these policy principles to further review of the applicability of the Fourteenth Amendment. It is, however, clear that our reliance in *Genentech I* on the authority of *Pennsylvania v. Union Gas*, whereby we interpreted Public Law 102-560 to abrogate immunity for this declaratory action against the University, can not now be sustained on this ground. The district court held that the Fourteenth Amendment did not fill this gap insofar as this declaratory action was concerned. Section 1 of the Fourteenth Amendment provides that no state shall "deprive any person of life, liberty, or property, without due process of law," and section 5, implementing this provision, grants Congress the power "to enforce, by appropriate legislation, the provisions of this article." The Court in *Seminole Tribe* recognized that the Fourteenth Amendment "had fundamentally altered the balance of state and federal power struck by the Constitution," 517 U.S. at 59, superseding, but only to the extent set forth therein, the states' immunity under the Eleventh Amendment. *See, e.g., Fitzpatrick v.*

Bitzer, 427 U.S. 445, 455 (1976) (section 5 of the Fourteenth Amendment empowers congressional abrogation of states' immunity); *see also City of Boerne v. Flores*, 117 S. Ct. 2157 (1997).

The district court expressed the view that Public Law 102-560 would be supported by the Fourteenth Amendment if the statute were interpreted as limited to actions against the state to remedy patent infringement by the state. Genentech disputes the need for this limitation, and argues that the constitutionality of Public Law 102-560 as written and as construed in *Genentech I* is supported by the Fourteenth Amendment since the University's patent-based threats and actions have directly affected Genentech's constitutionally-recognized property rights, and that deprivation of a remedy is a violation of due process of law. Genentech states that the University's threats of infringement and injunction have inhibited its commercial activity and exposed it to accruing damages, with the added risk of punitive damages for willful infringement if its defenses should fail. Genentech states that it has invested heavily in manufacturing plant and distribution, and that the '877 patent may be invalid or unenforceable yet is being wielded by the University/patentee as a commercial tool at the behest of a commercial competitor. Genentech states that it has a legally cognizable property right in its commercial investments and activities and prospects.

Genentech states that when the Constitution is implicated it is improper to draw lines among degrees of property interests or procedures for litigating disputes. Genentech states that *Seminole Tribe* does not require the anomalous interpretation whereby Public Law 102-560 would be deemed constitutional if applied to a state's deprivation of property by infringement of a privately owned patent, but unconstitutional if applied to a state's deprivation of property by threats to sue for infringement of a state-owned patent. The University responds that there is insufficient authority to sustain Genentech's theory of property deprivation based on threats of legal action and injunction, that Genentech has no property or liberty interest in infringing the University's patents, and that since no commercial activity has yet been shut down there has been no deprivation of property. Citing *City of Boerne v. Flores*, the University states that the Fourteenth Amendment does not provide

the requisite congressional power for Public Law 102-560 as interpreted in *Genentech I*.

Genentech, stressing the inequity of permitting the University to manipulate judicial resolution of this controversy while materially interfering with commercial interests to the benefit of competitive commercial interests, suggests that the Court in *Seminole Tribe* can not have intended to eliminate declaratory remedy for a state's deprivation of commercial property that, because federal courts have exclusive jurisdiction of patent cases, can not be remedied in the state courts. Contrast *Idaho v. Coeur d'Alene Tribe of Idaho*, 117 S. Ct. 2028 (1997), wherein the Court pointed out that although the state has Eleventh Amendment immunity from suit in federal court, the Coeur d'Alene Tribe can obtain full relief in the state courts concerning title to territory located within the state. The University responds that the Court in *Seminole Tribe* did not intend that occasional inequity, should it arise, would override the constitutional primacy of the principles of the Eleventh Amendment.

The district court, hearing the arguments, held that Genentech "has no protectable property right of which it has been deprived without due process of law." Resolving this question is unnecessary to our decision. Thus we do not decide whether the Fourteenth Amendment and the Patent Clause of Article I can support Public Law 102-560 as it was applied in *Genentech I*. *See Califano v. Yamasaki*, 442 U.S. 682, 692-93 (1979) (courts should avoid unnecessary constitutional adjudication). Nor do we decide whether Public Law 102-560 can be interpreted or applied to provide a constitutionally secure remedy for infringement by the state, as postulated by the district court. This question is before this court in *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 948 F. Supp. 400 (D.N.J. 1996) (appeal to Federal Circuit pending).[4] We need not now decide the constitutional question, for we conclude that the University has by its litigation-related actions waived its immunity and consented to this suit.

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[4] Issues arising from similar copyright legislation are treated in *Chavez v. Arte Publico Press*, 139 F.3d 504 (5th Cir. 1998).

B

The Eleventh Amendment is not directed to the competence of the federal courts, but "enacts a sovereign immunity from suit, rather than a nonwaivable limit on the federal judiciary's subject matter jurisdiction." *Coeur d' Alene Tribe*, 117 S. Ct. at 2033. As stated in *Pennhurst State School & Hospital v. Halderman*, 465 U.S. 89, 99 (1984), "the Court consistently has held that a State may consent to suit against it in federal court." We take note that the state of California has broadly granted complainants access to state courts, and that the University is the subject of a specific sue-and-be-sued provision. Cal. Const. art. IX, § 9(f). It is the principles of federalism that shield a state from federal judicial authority. Although waiver of that shield and the imposition of consent to federal authority upon a state agency is rare, in the circumstances that here exist we conclude that the University has waived its immunity from suit in federal court and has constructively consented to the declaratory judgment action brought by Genentech.

In reaching this conclusion we place weight on the University's voluntary and deliberate creation of a case or controversy that can be resolved only in federal courts, concerning federally-created property rights of national scope that are enforceable only by federal judicial power. Waiver or consent requires more than a strong federal interest in the subject matter of the controversy. We do not hold that simply by the act of obtaining federal patents the University waived Eleventh Amendment immunity. Analogy is drawn to *Atascadero State Hospital v. Scanlon*, 473 U.S. at 246-47 where the Court held that by accepting funds under the Federal Rehabilitation Act the hospital did not consent to suit in federal court. The state must not only have entered a field of activity that is subject to federal law, but must have actively invoked federal judicial power to aid that activity. It is thus highly relevant that the University acted to create the federal cause of action by its charge of patent infringement and threat of federally imposed and enforced remedial action.

Although the University has the right to refrain from taking actions that implicate federal jurisdiction, and Congress can not legislate otherwise, *see Seminole Tribe*, when the University

chooses to enter the federal arena, when the University's action in creating the controversy is within its sole control and initiative, and when the University invokes the systems of federal law and federal judicial power for enforcement of federal property rights, actionable only in federal court, including property rights extraterritorial to the state, the state is deemed to have waived its immunity from federal authority to resolve that controversy. The University has voluntarily entered the federal milieu and has consented to the federal jurisdiction whose force it invokes. Although the University argues that it did not consent to the federal declaratory judgment action brought by Genentech, the declaratory action was enabled solely by the University's deliberate acts.

It is also a factor to be considered that the University's actions are not at the core of the educational/research purposes for which the University was chartered as an arm of the state[5], although the record contains no basis for disputing that a research university's patenting activity serves to move into public benefit scientific inventions that might otherwise languish as laboratory curiosities. The question "whether there may be some state instrumentalities that qualify as 'arms of the state' for some purposes but not others," was raised but not answered in *Regents of the University of California v. Doe*, 519 U.S. 425, 427 and n.2 (1997). We too do not answer that question, for our decision does not require analysis of the magnitude of the commercial component in the relationship between the University's research activities and its dissemination of that research through patents and industrial licenses.[6] However, it is not irrelevant, in connection with the University's claimed immunity, that this commercially-oriented activity is not central to the University's charter.

The University states that it is simply managing its property for optimum income, citing provisions of California law requiring it, in

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[5] The University is California's "primary state-supported academic agency for research," and is charged with the mission to "provide undergraduate instruction in the liberal arts and sciences and in the professions." Cal. Educ. Code § 66010.4(c).

[6] We are directed to a press report that in 1994 the University received $50.2 million in royalties, filed 389 patent applications, and received 126 patents.

the University's words, to "manage its real and personal property for the public benefit." *See* Cal. Educ. Code § 92431. However, patent property is neither real nor ordinary personal property, as is normally subject to the jurisdiction of state judicial authority. Patent property is of national scope -- the federal government grants to the patentee the right to exclude others from making, using, or selling the patented subject matter anywhere in the United States and its possessions. Neither the creation nor the validity or enforcement of this right is subject to state law. The University's threats against Genentech are directed to national rights that are independent of and ungovernable by state law. Unlike the recourse to state courts proposed by the Court in *Coeur d'Alene*, there is no remedy in state courts affecting the validity or infringement of patent property. Thus although University ownership of federal patents is not of itself a waiver of federal immunity, neither are the University's actions in enforcing its patents immunized against waiver by the California Education Code.

Conclusion

We conclude that the University has consented to this suit, on the combination of factors present in this case, *i.e.*, the creation of federal property rights by federal law, property of national effect that is actionable only through the federal judicial power, accompanied by the University's threats of suit in federal court, invoking the remedial power of nation-wide injunction, whereby the University voluntarily created a case and controversy under Article III that can be resolved only by federal judicial authority. By these actions, deliberately undertaken and within the University's control, the University has manifested its consent to the Article III judicial power and this declaratory action, and has waived any immunity as an arm of the state.[7]

With our holding that the University waived its Eleventh Amendment immunity and consented to this suit, it follows that this

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[7] In view of the challenge to the constitutionality of a federal statute, the United States has intervened in accordance with 28 U.S.C. § 2403(a). The position of the United States is that the University consented to be sued, waiving any immunity when it acted to obtain, to license, and to enforce the '877 patent.

declaratory action was improperly dismissed by the Indiana district court. We reverse that dismissal, and remand for appropriate further proceedings.

II

OTHER ISSUES

A

As mentioned *supra*, in *Seminole Tribe* the Court implied that the *Ex parte Young* procedure was available to provide remedy under the patent and copyright laws. 517 U.S. at 72-73 n.16. Courts have employed the *Ex parte Young* doctrine in ordering state officials to comply, for example, with the Clean Water Act, *see Natural Resources Defense Council v. California Dep't of Transp.*, 96 F.3d 420 (9th Cir. 1996); *Mancuso v. New York State Thruway Auth.*, 86 F.3d 289 (2d Cir. 1996). *See generally Coeur d' Alene Tribe*, 117 S. Ct. 2028 (discussing limitations of the *Young* doctrine).

Ex parte Young presents novel questions of applicability to an action requesting declaration of patent invalidity and noninfringement. We do not explore these aspects, for in this case the district court had refused to permit an amended complaint against the Regents in their individual capacities, and this court deemed the appeal of that question mooted by the enactment of Public Law 102-560. *Genentech I*, 998 F.2d at 940. Although Genentech again raises the issue, in view of our decision we do not further consider this procedure.

B

Genentech conditionally appealed certain interlocutory rulings of the district court, inquired as to the finality of other rulings, and expressed concern about preserving its right to appeal certain rulings upon final judgment, citing jurisdictional uncertainties flowing from the actions taken in the multidistrict proceeding and the movement between the Indiana and the California district courts. Genentech particularly directs attention to the district

court's grant of summary judgment that Genentech is not a third-party beneficiary of the University/Lilly license, *Genentech, Inc. v. Regents of the Univ. of Cal.*, 952 F. Supp. 617, 622 (S.D. Ind. 1996); the district court's refusal to permit Genentech to amend its complaint to add a Sherman Act claim, on the ground that the University is entitled to *Parker* immunity [*Parker v. Brown*, 317 U.S. 341 (1943)], *In re Recombinant DNA Tech. Patent & Contract Litig.*, 874 F.Supp. 904 (S.D. Ind. 1994); and other rulings made in either the multidistrict proceeding or the Indiana action.

We hold that all of these rulings, to the extent that they are appealable, are preserved for appeal upon final judgment. Neither side shall be deemed to have forfeited any right of appeal by virtue of the procedural and jurisdictional complexities of this case.

III

APPEAL NO. 96-1361

This separate appeal, relating to two interlocutory issues arising from this litigation, was considered in conjunction with Appeal No. 97-1099.

A

During the multidistrict proceedings under 28 U.S.C. § 1407, *In re Recombinant DNA Tech. Patent & Contract Litig.*, No. 912 (JPML filed Feb. 19, 1992), the United States District Court for the District of Indiana denied the University's motion to dismiss Genentech's third-party beneficiary claim. *In re DNA Tech.*, 874 F.Supp. 904, (S.D. Ind. 1994). Upon completion of the multidistrict proceedings, the same district court granted summary judgment in favor of the University on Genentech's third-party beneficiary claim. *Genentech, Inc. v. Regents of the Univ. of Cal.*, 952 F. Supp. 617, 622 (S.D. Ind. 1996). That judgment was appealed in Appeal No. 97-1099. Thus the appeal of this issue in Appeal No. 96-1361 is dismissed.

B

The University also appealed from the district court's grant of an injunction prohibiting it from filing actions bringing certain antitrust and other claims in other courts. *Genentech v. Regents*, No. IP-90-1679-C-D/G, order at 7-8 (S.D. Ind. Apr. 12, 1996). In accordance with 28 U.S.C. § 1292(c)(1) an interlocutory order granting an injunction is appealable.

During pendency of the multidistrict proceedings before the district court in Indiana, the University moved for authorization to file a complaint in California district court. The proposed complaint contained a count for infringement of the same patent in suit, and also counts alleging violations by Genentech of sections 1 and 2 of the Sherman Act based on its marketing practices in selling the accused infringing product. Substantially the same allegations were made in the University's proposed state court antitrust complaint, for which filing authorization was also sought. The district court, denying the motion, held that the University's "proposed state and federal claims are compulsory counterclaims and must be lodged, if at all, in the context of the instant litigation." Order, April 12, 1996, at 7. Determination that a claim is a compulsory counterclaim is reviewed for abuse of discretion. *Warshawsky & Co. v. Arcata Nat'l Corp.*, 552 F.2d 1257, 1265 (7th Cir. 1977).

Fed. R. Civ. P. 13(a) defines "compulsory counterclaim" as "any claim which . . . arises out of the transaction or occurrence that is the subject matter of the opposing party's claim." In *Burlington N. R.R. Co. v. Strong*, 907 F.2d 707 (7th Cir. 1990) the court applied the three-part test for determining whether counterclaims are compulsory: "In order to be a compulsory counterclaim, Rule 13(a) requires that the claim (1) exist at the time of pleading, (2) arise out of the same transaction or occurrence as the opposing party's claim, and (3) not require for adjudication parties over whom the court may not acquire jurisdiction." *Id.* at 710-11. The scope of "transaction or occurrence" is liberally interpreted, as the court determines whether there is a logical relationship between the claim in suit and the counterclaim. *See Price v. United States*, 42 F.3d 1068, 1072-73 (7th Cir. 1994); *Burlington*, 907 F.2d at 711.

In the case at bar, the district court observed that the claims and counterclaims all flow from the charge of patent infringement.

Although antitrust violations involve a different body of law and different remedies, the underlying event is the validity and infringement of the patent. Indeed, the proposed new complaint for filing in California district court included the same charge of infringement that had not yet been litigated, and would be part of the Indiana suit.

The dominant criterion for deciding whether a counterclaim is compulsory is not whether additional evidence would be required to prove the counterclaim; it is whether, in the interest of judicial economy, the causes arose out of the same transaction or occurrence and should reasonably be litigated in the same suit. In making this determination, which invokes judicial discretion, the court may give weight to the advantages of consolidation, efficiency, and expedition, in requiring that issues arising from related facts be litigated in the same suit. *See generally* 6 Charles Alan Wright, Arthur R. Miller & Mary Kay Kane, *Federal Practice and Procedure* § 1409, at 46-47 (2d ed. 1990). We take note that there is not unanimity among the circuits on this question as applied to antitrust counterclaims in patent infringement suits, that the Court's statement on this issue in *Mercoid Corp. v. Mid-Continent Inv. Co.*, 320 U.S. 661 (1944) has occasioned varied application on particular facts, and that the district court's ruling does not contravene Seventh Circuit precedent.

We observe that antitrust issues already are included in the Indiana case. There has yet to be a trial on the merits. With consideration to the totality of the claims of both sides, the factual backgrounds of each, and the law, we conclude that the district court did not exceed its discretionary authority in viewing the University's proposed separate federal and state actions as compulsory counterclaims. *See Price*, 42 F.3d at 1073. ("The purpose behind the rule is judicial economy").

The district court's injunction prohibiting the University from filing separate infringement and antitrust complaints in other forums is affirmed.

APPEAL NO. 97-1099 / REVERSED AND REMANDED

APPEAL NO. 96-1361 / AFFIRMED

GENENTECH, INC.,

Plaintiff,

v.

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Defendant.

MDL DOCKET NO. 912, IP-90-1679-C-D/G

UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF INDIANA, INDIANAPOLIS DIVISION

September 27, 1996, Filed

OPINION BY: S. Hugh Dillin, District Judge

Entry Granting UC's Motion to Dismiss for Lack of Jurisdiction Based on the Eleventh Amendment

This cause comes before the Court on UC's motion to dismiss for lack of jurisdiction based on the Eleventh Amendment. For the following reasons, UC's motion is GRANTED.

Background

The present action is one of six cases consolidated in this Court for pretrial proceedings by the Judicial Panel on Multidistrict Litigation. *See In re Recombinant DNA Technology Patent and Contract Litig.*, Docket No. 912 (J.P.M.L. Feb. 19, 1992), *aff'd*, *In re Regents of the Univ. of Cal.*, 964 F.2d 1128 (Fed. Cir. 1992); *In re Recombinant DNA Technology Patent and Contract Litig.*, Docket No. 912 (J.P.M.L. Oct. 1, 1993). The consolidated cases arose out of various research arrangements and license agreements among the Regents of the University of California (UC), Genentech, Inc. (Genentech) and Eli Lilly and Company (Lilly). The instant case is the only one of the consolidated actions remaining actively litigated.[1]

Genentech initiated the present action on August 6, 1990, in this Court by filing a complaint for a declaratory judgment that UC's United States Patent Number 4,363,877 (the '877 patent) is

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[1] A settlement between Lilly and Genentech resulted in the resolution of cause numbers IP-88-1463-C, IP-87-0219-C and IP-93-1340-C, as well as the elimination of Lilly's and Genentech's claims against one another in the present case. *See* Order, Cause Numbers IP-87-0219-C, IP-88-1463-C, IP-93-1340-C, IP-90-1679-C and IP-92-0223-C (S.D. Ind. Jan. 13, 1995) (orders entered pursuant to Lilly and Genentech's stipulations of dismissal).

Moreover, this Court earlier enjoined further prosecution of cause number IP-92-0223-C in favor of IP-90-1679-C, the mirror image of IP-92-0223-C and the first of the two cases filed. *See* Entry Denying Genentech's Motion to Amend Its Answer and Counterclaims and Enjoining Further Prosecution of IP-92-0223-C, Cause Number IP-92-0223-C (S.D. Ind. Mar. 22, 1994).

Finally, on December 11, 1995, this Court issued a Memorandum of Opinion and Judgment following a bench trial of cause number IP-92-0224-C. *See* Memorandum of Opinion, Cause Number IP-92-0224-C-D/G (S.D. Ind. Dec. 11, 1995), and Judgment, Cause Number IP-92-0224-C-D/G (S.D. Ind. Dec. 11, 1995).

In light of the foregoing activity, only those claims between Genentech and UC in cause number IP-90-1679-C actively remain litigated.

invalid, unenforceable and noninfringed. On the following day, UC filed a patent infringement action against Genentech in the Northern District of California, claiming that Genentech willfully infringes the '877 patent. On August 27, 1990, Genentech amended its Complaint in this Court, and the Amended Complaint not only sought a declaratory judgment, but also lodged antitrust and pendent state law claims against both UC and Lilly.

UC objected to this Court's jurisdiction over it, and on September 21, 1990, filed a motion to dismiss based on, *inter alia*, Eleventh Amendment immunity. In a February 4, 1991, Entry, Judge Larry McKinney found that UC was an instrumentality of the State of California and, hence, UC's actions were entitled to the protection of the Eleventh Amendment. *See* Order on Motion to Dismiss as to the Regents of the University of California, Cause Number IP-90-1679-C (S.D. Ind. Feb. 4, 1991). Furthermore, the district court determined that dismissal would be appropriate even without consideration of the Eleventh Amendment. Specifically, the court cited Seventh Circuit precedent holding that a declaratory judgment suit should be dismissed if that suit was filed in anticipation of an infringement suit. *Id.* (citing *Tempco Elec. Heater Corp. v. Omega Eng'g, Inc.*, 819 F.2d 746 (7th Cir. 1987)). According to the court, "Genentech filed this declaratory judgment suit because it knew UC was about to file an infringement suit, and in fact did file the suit one day later." *Id.* at 7. Consequently, the court concluded, dismissal of Genentech's declaratory judgment action was proper.

Genentech appealed the district court's dismissal of UC, and on July 1, 1993, UC again was made a party to this action when the Federal Circuit held that dismissal of UC was improper. *Genentech, Inc. v. Eli Lilly & Co.*, 998 F.2d 931 (Fed. Cir. 1993), *cert. denied*, 510 U.S. 1140 (1994). First, the Federal Circuit declined to apply the *Tempco* Electric rule to patent actions, reasoning that

> [s]uch a rule would automatically grant the patentee the choice of forum, whether the patentee had sought--or sought to avoid--judicial resolution of the controversy. This shift of relationship between litigants is contrary to the purpose of the Declaratory Judgment Act to enable a person caught in controversy to obtain resolution of the

> dispute, instead of being forced to await the initiative of the antagonist.

Id. at 937 (citation omitted). The court stated its preference for adherence to the general rule in which the forum of the first-filed case is favored, absent sound reasons for deviating from that rule. Because dismissal of UC was not grounded on such reasons, the court concluded, dismissal of it was improper.

Next, the court turned to discuss the district court's finding that UC was immune from suit by the United States Constitution's Eleventh Amendment. The Federal Circuit preliminarily noted that

> [t]he district court treated the University as an arm of the state, with the same immunity as one of the United States. Although Genentech states that it does not concede this point, it was not placed at issue and for the purposes of this appeal the University position is accepted.

Id. The court then determined that the legislation enacted on October 28, 1992 -- 35 U.S.C. § 271(h) and 35 U.S.C. § 296 -- effectively abrogated state immunity vis-a-vis all violations under the patent statute with respect to a state-owned patent. The court concluded that this abrogation "necessarily includes permitting the states to be a defendant in a suit asserting that the patent is in violation of the law." *Id.* at 943.

Finally, the Federal Circuit determined that Genentech's declaratory judgment action required UC to "bring its charges of patent infringement against Genentech or be forever barred from doing so." *Id.* at 947. Additionally, the court stated that if UC did respond to the declaratory judgment suit with patent infringement charges, Genentech then could defend against that charge and also could "bring compulsory counterclaims that are suitable for recoupment of damages that may be assessed against it." *Id.* at 948. In its October 22, 1993, answer to Genentech's Amended Complaint, UC lodged a number of defenses, including reassertion of Eleventh Amendment immunity. Moreover, UC asserted a patent infringement counterclaim. Subsequently, the issues in the above-captioned case have been reduced to: 1) Genentech's claim that the '877 patent is invalid, noninfringed and unenforceable; 2) UC's

counterclaim for patent infringement; and 3) Genentech's claim that UC breached its third party beneficiary obligations to Genentech.

On April 29, 1996, UC filed the motion presently under consideration. According to UC, new case law indicates that the Eleventh Amendment precludes Genentech's declaratory judgment action and, hence, UC advances, dismissal is required. Notably, the case law on which UC focuses was not decided until 1996 -- more than two years after the Federal Circuit determined that UC, even though an arm of the state, properly was a party to this action.

Discussion

UC contends that the United States Supreme Court's recent decision in *Seminole Tribe of Florida v. Florida*, 116 S. Ct. 1114 (1996), dictates dismissal of the declaratory judgment action Genentech filed against it in this Court. According to UC, *Seminole Tribe* clearly illustrates that Congress had no power to abrogate UC's immunity from such a declaratory judgment action. Genentech admits in its opposition brief that the *Seminole Tribe* opinion "contains some rather sweeping language concerning Article I of the Constitution"; Genentech suggests, however, that the Patent and Copyright Clause[2] and the Fourteenth Amendment[3] of

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[2] Article 1, Section 8, Clause 8 of the United States Constitution provides that Congress shall have the power

> To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.

[3] The Fourteenth Amendment to the United States Constitution provides, in relevant part:

> **Section 1.** All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No State shall make or enforce any law which shall abridge the privileges or immunities of the citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor

(continued...)

the Constitution provided Congress with the power necessary to abrogate the states' Eleventh Amendment immunity. Alternatively, Genentech argues that UC, by its conduct, has waived its immunity from suit. Notably, Genentech does not counter UC's position that UC is an arm of the state and, as such, is entitled to Eleventh Amendment immunity.[4]

The Court in *Seminole Tribe* considered a federal statute that reportedly had been enacted pursuant to Congress' power under the Indian Commerce Clause of the United States Constitution, Article I, Section 8, Clause 3. The petitioner in *Seminole Tribe* argued that in *Pennsylvania v. Union Gas*, 491 U.S. 1 (1989), the Court already had determined, in the context of the Interstate Commerce Clause, that Article I of the Constitution provides Congress with the necessary power to abrogate a state's Eleventh Amendment immunity. The *Seminole Tribe* Court agreed with the petitioner that "the plurality opinion in *Union Gas* allows no principled distinction in favor of the States to be drawn between the Indian Commerce

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> deny to any person within its jurisdiction the equal protection of the laws.
>
> . . . . .
>
> **Section 5.** The Congress shall have the power to enforce, by appropriate legislation, the provisions of this article.

[4] As noted, *supra*, in the text, Judge McKinney previously deemed UC an arm of the state, and for purposes of the appellate decision stemming from Judge McKinney's Entry, the Federal Circuit assumed UC was an arm of the state. In a November 18, 1994, Entry, the undersigned determined that *Parker* immunity insulated UC from antitrust liability. *See* Entry Granting in Part and Denying in Part Genentech's Motion for Leave to Further Amend Its Amended Complaint; Granting in Part and Denying in Part UC's Motion to Dismiss Counts II-VIII of Genentech's Amended Complaint; and Reinstating Genentech's § 1 Sherman Act Claim Against Lilly at 10-17, Cause Number IP-90-1679-C (S.D. Ind. Nov. 18, 1994). In that Entry, we determined that *Parker* immunity was available to UC because the state statutes in issue not only contemplated the subject acts, but also authorized the anticompetitive conduct. *Id.*

Clause and the Interstate Commerce Clause." *Seminole Tribe*, 116 S. Ct. at 1127.

After determining that the Indian Commerce Clause and the Interstate Commerce Clause were indistinguishable for purposes of its discussion, the Court then held that *Union Gas* had been incorrectly decided and overruled it. The Court reasoned that when *Union Gas* was decided, the Eleventh Amendment already was well understood to limit the federal courts' jurisdiction under Article III. The Court

> ...reconfirm[ed] that the background principle of state sovereign immunity embodied in the Eleventh Amendment is not so ephemeral as to dissipate when the subject of the suit is an area, like the regulation of Indian commerce, that is under the exclusive control of the Federal Government. Even when the Constitution vests in Congress complete lawmaking authority over a particular area, the Eleventh Amendment prevents congressional authorization of suits by private parties against unconsenting States. The Eleventh Amendment restricts the judicial power under Article III, and Article I cannot be used to circumvent the constitutional limitations placed upon federal jurisdiction.

Seminole Tribe, 116 S. Ct. at 1131-32.

Hence, presently, if the federal statutes through which Congress abrogated the states' sovereign immunity as it relates to the patent laws -- 35 U.S.C. §§ 271(h), 296 -- were enacted pursuant only to Article I, then this Court lacks Article III jurisdiction over Genentech's declaratory judgment action.[5] Genentech, however, contends that Congress relied not only on its power under the

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[5] An unconsenting state is immune from a suit regardless of the nature of the relief sought. *Pennhurst State Sch. & Hosp. v. Halderman*, 465 U.S. 89, 100 (1984). In fact, the *Seminole Tribe* plaintiff sought nonmonetary relief.

Commerce Clause, but also relied on its power under the Fourteenth Amendment. To support this argument, Genentech focuses on the legislative history of the Patent and Plant Variety Protection Remedy Clarification Act (the Act), Pub. L. No. 102-560, 106 Stat. 42340 (1992). In its report pertaining to the Act, the Senate Committee stated:

> Finally, the bill is justified as an acceptable method of enforcing the provisions of the fourteenth amendment. The court in *Lemelson v. Ampex Corp.*, (372 F. Supp. 708 (N.D. Ill. 1974)) recognized that a patent is a form of property, holding that a right to compensation exists for patent infringement. Additionally, because courts have continually recognized patent rights as property, the fourteenth amendment prohibits a State from depriving a person of property without due process of law. The same holds true in the area of trademarks. Furthermore, the fourteenth amendment gives Congress the authority to enforce this right. S. 758 and S. 759 represent a valid extension of Congress' right to protect the property rights of patent and trademark holders.

Patent and Plant Variety Protection Remedy Clarification Act, S. Rep. No. 102-280, 102d Cong., 2d Sess. 8 (1992), *reprinted* in 1992 U.S.C.C.A.N. 3087, 3094.

Genentech argues that patents are property; that section one of the Fourteenth Amendment prevents states from depriving persons of property without due process of law; and that section five of the Fourteenth Amendment grants Congress the power to enforce the provisions of the Fourteenth Amendment. Consequently, Genentech submits, Congress rightfully drew from its Fourteenth Amendment power when it amended the patent laws and thereby abrogated the states' sovereign immunity from patent suits.

We agree with Genentech that Congress drew in part from its Fourteenth Amendment power when it amended the statutes in issue. The Court, however, believes that the language of the Fourteenth Amendment, itself, limits Congress' power as it applies to the instant case. Specifically, the Fourteenth Amendment

prohibits a State from depriving any person of life, liberty, or property without due process of law. If Genentech were the owner of the '877 patent and Genentech were suing UC for infringement of that patent, the Fourteenth Amendment would provide Congress with the power necessary to abrogate UC's immunity. As Genentech claims, a patent is a protectable property right and to permit the State to infringe that property right without redress for the patent owner would deprive that owner of property without due process of law.

This scenario, however, is not before us. Rather, UC is the patent owner, and Genentech has commenced a declaratory judgment action against UC. Consequently, Genentech has no property right in the subject patent. Moreover, Genentech has no protectable property right of which it is has been deprived without due process of law. According to UC, Genentech is infringing the '877 patent in its manufacture of certain substances. Genentech is free to manufacture said substances until UC not only lodges an infringement action, but also secures either injunctive relief or final judgment in its favor. In either event, Genentech will have gotten due process of law before a deprivation occurs. Hence, we do not believe the statutory amendments in issue can be interpreted under the Fourteenth Amendment to abrogate UC's sovereign immunity. We believe that doing so would require that we apply the subject statutes in an unconstitutional manner.

Finally, we turn to discuss Genentech's argument that UC has waived its Eleventh Amendment immunity. The Supreme Court has determined that a sovereign's immunity may be waived, and thereby a state may consent to suit against it in federal court. *Pennhurst State Sch. & Hosp.*, 465 U.S. 89, 99 (1984). That consent, however, must be expressed unambiguously. *Id.* (citation omitted).

> Our reluctance to infer that a State's immunity from suit in the federal courts has been negated stems from recognition of the vital role of the doctrine of sovereign immunity in our federal system. A State's constitutional interest in immunity encompasses not merely *whether* it may be sued, but *where* it may be sued.

Id. (emphasis in original).

In the context of Congressional abrogation of sovereign immunity, the Supreme Court has stated that

> "abrogation of sovereign immunity upsets 'the fundamental constitutional balance between the Federal Government and the States,'" *Dellmuth v. Muth*, 491 U.S. 223, 227 (1989) (quoting *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 238 (1985)), and because States are unable directly to remedy a judicial misapprehension of that abrogation, the Court has adopted a particularly strict standard to evaluate claims that Congress has abrogated the States' sovereign immunity.

Port Authority Trans-Hudson Corp. v. Feeney, 495 U.S. 299, 305, (1990) (citation omitted). The *Port Authority* Court stated that the same strict standard is applicable in determining whether a State has waived its Eleventh Amendment immunity. Hence, in order to conclude that such waiver has occurred, the sovereign's intention to waive its immunity must be unmistakably clear. *Id.*; *see also Welch v. Department of Highways & Public Transp.*, 483 U.S. 468, 473, (1987). ("'[B]ecause constructive consent' is not a doctrine commonly associated with the surrender of constitutional rights," *Edelman v. Jordan*, 415 U.S. 651, 673 (1974), the Court will find waiver by the State "only where stated 'by the most express language or by such overwhelming implications from the text as [will] leave no room for any other reasonable construction.'" *Id.* (quoting *Murray v. Wilson Distilling Co.*, 213 U.S. 151, 171 (1909)).

In the instant case, Genentech contends that the following events illustrate that UC has waived its sovereign immunity: UC obtained a federal patent; UC granted an exclusive license to Lilly, permitting Lilly to demand that UC sue Genentech in federal court; Lilly subsequently demanded that UC sue Genentech; and in response to Lilly's demand, UC accused Genentech of infringing the '877 patent and threatened suit. As previously stated, Genentech filed the instant declaratory judgment action one day before UC filed its infringement suit in the district court for the Northern District of California.

Preliminarily, we acknowledge Genentech's concern about the exclusivity of federal jurisdiction over patent cases. Specifically, Genentech observes that "[t]o hold that UC's conduct does not waive its immunity would give UC the right -- possessed by no other patent owner -- to acquire patents and threaten infringement litigation in federal court of its own choosing without fear that a declaratory judgment action could be brought against it."[6] Genentech's Opp'n at 13. Although Genentech's observation is correct, we do not believe such concern affords much support in this arena given that our focus must be on the State's consent to suit. To weigh heavily Genentech's concern, we would have to find that UC's decision to secure a patent is clear evidence that UC consented to suit in federal court. We are unpersuaded that procurement of a patent is evidence of consent to suit, let alone *clear* evidence of consent.

Likewise, we fail to see how UC's grant of an exclusive license to Lilly could tend to prove that UC consented to be sued in federal court. According to Genentech, the agreement between UC and Lilly stipulates that UC must sue infringers in federal court upon Lilly's demand. Hence, when UC allegedly responded to Lilly's demand by filing suit in federal court against Genentech, UC undoubtedly consented to such suit. However, we are unconvinced that an agreement requiring UC to bring a suit in federal court upon demand, without more, should be interpreted as consent to be sued.

Similarly, we are unpersuaded that UC's alleged infringement accusations and threats of suit against Genentech are sufficient to constitute an unambiguous expression of UC's consent to suit in a federal forum. An alternate reasonable construction of UC's alleged accusations and threats, for example, would be that UC believed such threats alone would prompt Genentech to halt what

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[6] This same argument has been offered and rejected in the context of whether Congress, by employing certain statutory language, intended to abrogate Eleventh Amendment immunity. *See, e.g., Chew v. California*, 893 F.2d 331 (Fed. Cir.) (holding that "the exclusivity of a congressional power or the exclusiveness of the federal court remedy has not been relied upon as grounds or support for abrogation.") (citation omitted), *cert. denied*, 498 U.S. 810 (1990).

UC describes as infringing activities. Genentech apparently believes the Court should weigh the fact that UC filed suit in California a day after Genentech did so in Indiana as after-the-fact consent to be sued. Hence, the issue would become whether a state can consent to an earlier suit against it in a distant federal court by later filing its own action in a federal court located within its boundaries. Genentech points to no authority in support of this form of waiver, nor has the Court located any such authority.

Present case law indicates that a state potentially can waive its immunity in the context of a case filed by another person or entity. *See Vecchione v. Wohlgemuth*, 558 F.2d 150, 159 (3rd Cir.), *cert. denied*, 434 U.S. 943 (1977) (finding waiver where state did not assert immunity until almost a year after its time to appeal order had expired); *but see In re Department of Energy Stripper Well Exemption Litig.*, 956 F.2d 282, 286 (Temp. Emer. Ct. App. 1992) (noting that federal courts have applied a tough standard for finding an implied waiver of Eleventh Amendment immunity, and holding that New Mexico's intervention in suit in order to claim a portion of funds for its citizens did not waive its immunity), and *Silver v. Baggiano*, 804 F.2d 1211, 1214 (11th Cir. 1986) (holding that removal of suit to federal court by state officials did not constitute consent because removing officials did not have authority to consent). A state also can waive its immunity within the context of a state statute or state constitution. *Micomonaco v. State of Wash.*, 45 F.3d 316, 319 (9th Cir. 1995). This Court is not inclined to extend the current case law on waiver to include the conduct in issue in the instant case.[7]

When the Federal Circuit upheld the decision of the Judicial Panel on Multidistrict Litigation to consolidate pretrial proceedings of the above-captioned and related actions, it concluded that the Panel's "order does not force unconsented suit upon [UC], but simply coordinates pretrial proceedings, in the interest of

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[7] We note that UC sought no affirmative relief in the context of the instant case until the Federal Circuit directed that UC either had to plead its infringement claim or be forever barred from doing so. *See supra.* Subsequently, UC reasserted its Eleventh Amendment defense and lodged an infringement claim.

efficiency." *In re Regents of the Univ. of Cal.*, 964 F.2d at 1134. Clearly, the Federal Circuit found that coordinating discovery in this Court without UC's consent did not violate the principles of sovereign immunity. In today's decision, however, we go beyond the issue of discovery. As explained *supra*, we are persuaded that UC has not consented to the initiation of cause number IP-90-1679-C in this Court.

On March 22, 1994, we enjoined further prosecution of cause number IP-92-0223-C, reasoning that IP-90-1679-C was the mirror image of IP-92-0223-C and was the first of the two cases filed. *See supra* n.1. In light of today's decision, we *sua* sponte remove the stay of prosecution earlier entered in IP-92-0223-C -- which renders IP-92-0223-C the only actively litigated case of the six cases consolidated in this court. We have at the same time requested the Judicial Panel to remand IP-92-0223-C to the Northern District of California for trial. Notably, because the two cases are mirror images, the discovery that has taken place in IP-90-1679-C fully is applicable to IP-92-0223-C.

In summary, based on the strict standard applicable to the issue of consent, and guided by case law and by the United States Constitution, we conclude that dismissal of UC from this action is proper. Hence, for the foregoing reasons, we grant UC's motion to dismiss cause number IP-90-1679-C for lack of jurisdiction and lift our March 22, 1994, stay of prosecution in cause number IP-92-0223-C.

Dated this 27th day of September, 1996.

S. Hugh Dillin, Judge

GENENTECH, INC.,

Plaintiff-Appellant,

v.

ELI LILLY AND COMPANY,

Defendant,

and THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Defendant-Appellee.

No. 91-1249

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

July 1, 1993, Decided

Before NEWMAN, Circuit Judge, SKELTON, Senior Circuit Judge, and LOURIE, Circuit Judge.

Opinion for the Court by Circuit Judge PAULINE NEWMAN:

Genentech, Inc. appeals the judgment of the United States District Court for the Southern District of Indiana[1] dismissing, as to the Regents of the University of California ("the University"), the declaratory judgment action brought by Genentech against the University and Eli Lilly and Company ("Lilly"). We affirm in part, vacate in part and remand for further proceedings.

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[1] *Genentech, Inc. v. Eli Lilly & Co.*, No. IP 90-1679-C (S.D. Ind. Mar. 7, 1991).

This is one of several lawsuits filed in the federal courts of Indiana and California involving these parties,[2] relating to recombinant DNA technology as used for the production of human growth hormone ("hGH"), a product having medicinal and therapeutic properties. The patent here involved is United States Patent No. 4,363,877 entitled "Recombinant DNA Transfer Vectors", granted December 14, 1982, inventors Howard M. Goodman, John Shine, and Peter H. Seeburg ("the '877 patent"). The patent is owned by the University.

The legal issues raised in this declaratory action relate to the infringement, validity, and enforceability of the '877 patent, and include charges by Genentech of violation of federal antitrust laws and state tort and contract laws based on certain patent licensing arrangements between the University and Lilly. The activities of the University are relevant to a threshold question in this appeal: whether the University, viewed as an arm of the state, is entitled, as to some or all of the charges made by Genentech, to Eleventh Amendment immunity under the Constitution of the United States or to State Action immunity. The University's activities are also relevant to another threshold question: whether the district court properly exercised its discretion in dismissing this declaratory judgment action as to the University.

The district court decided these questions under Federal Rules of Civil Procedure 12(b)(1) (lack of jurisdiction over the subject matter) and 12(b)(6) (failure to state a claim upon which relief can be granted), on motions made by the University following the filing of Genentech's complaint. Therefore the premises and allegations of Genentech's complaint are accepted as true for the purpose of deciding these threshold questions.

Genentech filed this declaratory action against Lilly and the University in the Southern District of Indiana, requesting judicial declaration that the '877 patent is invalid and not infringed. Genentech also sought declaration that the '877 patent is

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[2] Pending litigation, summarized in *In re Regents of the University of California*, 964 F.2d 1128, 1130-31 (Fed. Cir. 1992), included five lawsuits.

unenforceable for inequitable conduct, Genentech alleging that a Certificate of Correction was obtained through false or misleading representations by the University to the Patent and Trademark Office. Genentech also alleged that a waiver from the Department of Health, Education & Welfare (herein "HEW", now the Department of Health and Human Services), that permitted the University to grant an exclusive license to Lilly, was obtained through false representations to HEW and omissions of fact. Genentech also asserted that certain contractual obligations estopped the University from enforcing the '877 patent against Genentech. In addition, Genentech raised antitrust and patent misuse counts and state law tort counts as grounds of patent invalidity, unenforceability, and other relief.

The day after Genentech filed this declaratory action the University filed a patent infringement suit against Genentech in the United States District Court for the Northern District of California. The University then moved in the Indiana district court to dismiss this declaratory action as to the University. The Indiana court granted the motion on the ground that the suit was barred by the University's immunity and, alternatively, on exercise of the court's discretion to decline to entertain this declaratory action. The suit as to Lilly was not dismissed.

As we shall discuss in Part I, the district court erred in declining to hear this action against the University under the Declaratory Judgment Act. As we shall discuss in Part II, the University is not immune from suit as to the patent counts and certain other counts of the complaint. Thus, the suit was improperly dismissed under Rules 12(b)(1) and 12(b)(6).

I

THE DECLARATORY ACTION

We review first the dismissal under the Declaratory Judgment Act, for if that ruling is sustainable the questions of constitutional and State Action immunity need not be addressed.

The Declaratory Judgment Act provides:

> **28 U.S.C. § 2201**. In a case of actual controversy within its jurisdiction, except with respect to Federal taxes . . . , any court of the United States, upon the filing of an appropriate pleading, may declare the rights and other legal relations of any interested party seeking such declaration, whether or not further relief is or could be sought. Any such declaration shall have the force and effect of a final judgment or decree and shall be reviewable as such.

The use of the word "may" in § 2201 has been interpreted as meaning both that the court is authorized to declare legal rights and relations, and that in appropriate circumstances the court may decline to do so. *E.g., Minnesota Mining and Mfg. Co. v. Norton Co.*, 929 F.2d 670, 672 (Fed. Cir. 1991). However, the declaratory action is not a permissive action that may be heard or dismissed in absolute judicial discretion. *See* 10A Charles A. Wright *et al., Federal Practice and Procedure* § 2759, at 655-56 (2d ed. 1983 & Supp. 1992) ("The discretion of the trial court is not absolute and the court cannot refuse to entertain a declaratory judgment action on a whim"); Edwin Borchard, *Declaratory Judgments*, 293-94 (2d ed. 1941) (although the court is granted discretion, it is "a judicial discretion, hardened by experience into rule, and its exercise is subject to appellate review"). The exercise of discretion in a declaratory judgment must have a basis in sound reason. *Samuel Goldwyn, Inc. v. United Artists Corp.*, 113 F.2d 703, 709 (3d Cir. 1940).

An abuse of discretion may occur when the trial court's decision was based on an incorrect conclusion of law or clearly erroneous findings of fact, was devoid of any evidence in the record upon which the court rationally could have based its decision, or was clearly unreasonable or arbitrary. *Minnesota Mining*, 929 F.2d at 672-73. *See also Charter Financial Sav. Bank v. Office of Thrift Supervision.*, 976 F.2d 203, 208 n.8 (4th Cir. 1992) (noting that most circuits give plenary review to the question of exercise of jurisdiction in a declaratory action); 6A James W. Moore *et al., Moore's Federal Practice* ¶ 57.08[2] at 57-36 (2d ed. 1993) ("The determination of the trial court may, therefore, be reversed where, though not arbitrary or capricious, it was nevertheless erroneous"). Indeed, the district court in this case, although it declined to

entertain the declaratory action, did not do so arbitrarily. However, we conclude that it did so incorrectly.

A

The Case of Actual Controversy

To meet the requirements of the Declaratory Judgment Act there must be a "case of actual controversy", as the Constitution requires for any invocation of federal judicial authority. *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 239-40, (1937). The case must be "of sufficient immediacy and reality" to warrant declaratory relief. *Maryland Casualty Co. v. Pacific Coal & Oil Co.*, 312 U.S. 270, 273 (1941).

Determination of whether there is an actual controversy in patent actions generally entails the two part inquiry of (1) whether the declaratory plaintiff has acted in a way that the patentee asserts infringes the patent, or is preparing to act in such a way; and (2) whether the patentee has created, in the declaratory plaintiff, a reasonable apprehension of suit for infringement. *Arrowhead Indus. Water, Inc. v. Ecolochem*, Inc., 846 F.2d 731, 735-36 (Fed. Cir. 1988). When the patentee has explicitly charged that a current activity of the declaratory plaintiff is an infringement, "certainty has rendered apprehension irrelevant, and one need say no more." *Id.* at 736.

The University does not dispute that it charged Genentech with infringement of the '877 patent. Thus the case of actual controversy requirement was met.

B

The Tempco Electric Case

When there is an actual controversy and a declaratory judgment would settle the legal relations in dispute and afford relief from uncertainty or insecurity, in the usual circumstance the declaratory action is not subject to dismissal. *See* Borchard, *supra*, at 299 (discussing criteria guiding policy in favor of rendering declaratory judgments). In this case the district court based its

dismissal as to the University on the subsequent filing of a patent infringement suit by the University. The district court relied on *Tempco Electric Heater Corp. v. Omega Engineering, Inc.*, 819 F.2d 746 (7th Cir. 1987), which held that an action for declaration of noninfringement of a trademark should give way to a later-filed suit for trademark infringement. The court in *Tempco Electric*, dismissing the declaratory action, reasoned that the action served no useful purpose because the declaratory defendant soon thereafter filed a trademark infringement suit.

The question of whether a properly brought declaratory action to determine patent rights should yield to a later-filed suit for patent infringement raises the issue of national uniformity in patent cases, and invokes the special obligation of the Federal Circuit to avoid creating opportunities for dispositive differences among the regional circuits. Thus, although the Federal Circuit applies the procedural law of the regional circuit in matters that are not unique to patent law, *Allen Organ Co. v. Kimball Int'l, Inc.*, 839 F.2d 1556, 1563 (Fed. Cir.), *cert. denied*, 488 U.S. 850 (1988), and although matters of procedure do not always carry substantive weight, the regional circuit practice need not control when the question is important to national uniformity in patent practice. We incidentally take note that the rule of *Tempco Electric* is not followed for trademark cases in all circuits.

We decline to apply *Tempco Electric* to patent cases. Such a rule would automatically grant the patentee the choice of forum, whether the patentee had sought -- or sought to avoid -- judicial resolution of the controversy. This shift of relationship between litigants is contrary to the purpose of the Declaratory Judgment Act to enable a person caught in controversy to obtain resolution of the dispute, instead of being forced to await the initiative of the antagonist. *See* Borchard, *supra*, at 803-04; 6A Moore *et al.*, *supra*, ¶ 57.08[2] (discretion to render declaratory judgments should be exercised to effectuate the purposes of the Declaratory Judgment Act).

We prefer to apply in patent cases the general rule whereby the forum of the first-filed case is favored, unless considerations of judicial and litigant economy, and the just and effective disposition of disputes, require otherwise.

C

The General Rule

The general rule favors the forum of the first-filed action, whether or not it is a declaratory action. *See* Borchard, *supra*, at 818-20. Exceptions, however, are not rare, and are made when justice or expediency requires, as in any issue of choice of forum. *See Kahn v. General Motors Corp.*, 889 F.2d 1078, 1081-83 (Fed. Cir. 1989) (discussing the general rule, the "customer suit" exception, and other factors that overcome "the presumptive right of the first litigant to choose the forum").

The general rule as applied to patent cases was discussed in *Kerotest Manufacturing Co. v. C-O-Two Fire Equipment Co.*, 342 U.S. 180 (1952). "If [the alleged infringer] is forehanded, subsequent suits against him by the patentee can within the trial court's discretion be enjoined pending determination of the declaratory judgment suit . . . ." *Id.* at 185. As the Court recognized, the trial court's discretion tempers the preference for the first-filed suit, when such preference should yield to the forum in which all interests are best served. *Id.* at 184. There must, however, be sound reason that would make it unjust or inefficient to continue the first-filed action. Such reason may be the convenience and availability of witnesses, or absence of jurisdiction over all necessary or desirable parties, or the possibility of consolidation with related litigation, or considerations relating to the real party in interest. *Kahn*, 889 F.2d at 1081-83.[3] The Court cautioned against "rigid mechanical solution[s]" to questions of forum, stressing the importance of conservation of judicial resources and the comprehensive disposition of litigation. *Kerotest*, 342 U.S. at 183.

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[3] Although there are other reasons, equitable and legal in nature, why a declaratory judgment action may not be entertained in the court's sound discretion, *see, e.g., Steffel v. Thompson*, 415 U.S. 452, 460-62 (1974) (when a state proceeding is pending, considerations of equity, comity and federalism may counsel against exercise of federal jurisdiction), none is here raised.

The considerations affecting transfer to or dismissal in favor of another forum do not change simply because the first-filed action is a declaratory action. When the declaratory action can resolve the various legal relations in dispute and afford relief from the controversy that gave rise to the proceeding, and absent sound reason for a change of forum, a first-filed declaratory action is entitled to precedence as against a later-filed patent infringement action. In this case, the district court's dismissal of the University from the action in Indiana due to the filing of a subsequent suit by the University in California, while retaining the action in Indiana against Lilly, has led to a redundancy of litigation on some of the issues involving these three parties. The purpose of "prevent[ing] multiplicity of actions and to achieve resolution in a single lawsuit of all disputes arising out of common matters", *Southern Construction Co. v. Pickard*, 371 U.S. 57, 60 (1962), is as valid for declaratory action as any other. The Court remarked that the compulsory counterclaim rule is particularly directed against the failure of a party to assert a counterclaim in one action, followed by the institution of a second action wherein the counterclaim is the basis of the complaint. *Id.*; *see also* Fed. R. Civ. P. 13(a) (all issues between the parties arising from the same transaction or occurrence are required to be raised in the same suit). This is the pattern that here occurred.

The only stated reason for the district court's discretionary dismissal of the University from Genentech's declaratory action against the University and Lilly was that the University subsequently brought suit against Genentech elsewhere. That reason, as we have discussed, is insufficient to warrant refusal to entertain the action. We are not unmindful that this declaratory action was filed in Indiana only one day before the California infringement action. However, the rule favoring the right of the first litigant to choose the forum, absent countervailing interests of justice or convenience, is supported by "[reasons] just as valid when applied to the situation where one suit precedes the other by a day as they are in a case where a year intervenes between the suits." *Martin v. Graybar Elec. Co.*, 266 F.2d 202, 205 (7th Cir. 1959) (quoting *Crosley Corp. v. Westinghouse Elec. & Mfg. Co.*, 130 F.2d 474, 475 (3d Cir. 1942)).

The University points out that first-filed suits have sometimes been dismissed when forum shopping was the only motive for the filing. That exception was recognized in *Kahn*, 889 F.2d at 1081. In this case, however, there were sound reasons presented for Genentech's choice of the Indiana forum, for in its suit Genentech joined Lilly, an Indiana company, and sought consolidation with suits already pending in Indiana. We do take note that the Judicial Panel on Multidistrict Litigation has determined that there is considerable overlap among this declaratory action in Indiana, the action filed in California by the University, and three other actions involving various combinations of these parties in Indiana and California district courts. The Multidistrict Panel, hearing the arguments of all three parties on the choice of forum, ordered consolidation of these five actions for purposes of discovery and assigned coordination to the Indiana district court. That order was affirmed in *In re Regents of the University of California*, 964 F.2d 1128 (Fed. Cir. 1992). Although both sides now argue the merits of the Indiana versus the California forums, resolution of that question is not before us. Upon completion of the consolidated discovery, consideration should be given to further avoidance of duplicative litigation.

Conclusion

We conclude that it was incorrect to apply the *Tempco Electric* rationale to patent actions. Absent sound reason presented for dismissal of the University from the Indiana action in favor of a later-filed suit in California, dismissal as to the University was improper on discretionary grounds.

We thus reach the alternate grounds of dismissal, based on the Eleventh Amendment and the doctrine of State Action immunity.

II

STATE IMMUNITY FROM SUIT

The University is a public corporation of the State of California. The California Constitution established the University as "a branch of the state government equal and coordinate with the legislature, the judiciary, and the executive." 30 Ops. Cal. Atty. Gen. 162, 166 (1957). *See BV Engineering v. University of California*, 858 F.2d 1394, 1395 (9th Cir. 1988), *cert. denied*, 489 U.S. 1090 (1989) (describing the University of California and the Board of Regents as instrumentalities of the state).

The district court treated the University as an arm of the state, with the same immunity as one of the United States. Although Genentech states that it does not concede this point, it was not placed at issue and for the purposes of this appeal the University position is accepted.

A

The Constitutional Plan

The district court held that this suit against the University is prohibited by the Eleventh Amendment to the Constitution:

> The Judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against one of the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.

U.S. Const. amend. XI. Genentech argues that the Eleventh Amendment does not bar this action.

State immunity from suit in federal court is founded upon the fundamental relationship and constitutional balance between the federal government and the states. *Pennhurst State School & Hosp. v. Halderman*, 465 U.S. 89, 98-99 (1984). In general, without the state's consent a federal court is without power to entertain a suit by a private person against the state. *Employees of Dep't of Public*

Health & Welfare v. Department of Public Health & Welfare, 411 U.S. 279, 284 (1973) (discussing the federal/state relationship). As it was explained in The Federalist No. 81, at 487-88 (Alexander Hamilton) (Clinton Rossiter ed., 1961): "It is inherent in the nature of sovereignty not to be amenable to the suit of an individual *without its consent*. . . . Unless, therefore, there is a surrender of this immunity in the plan of the convention, it will remain with the States . . . ." (Emphasis in original.)

There are qualifications to the reach of the Eleventh Amendment, again in implementation of the constitutional plan. Thus Congress has legislatively abrogated state immunity in specific circumstances, based variously on the enforcement provision of § 5 of the Fourteenth Amendment (granting Congress authority to enforce "by appropriate legislation" the provisions of the Fourteenth Amendment), *Fitzpatrick v. Bitzer*, 427 U.S. 445, 456 (1976) (statute abrogated state immunity from suit for employment discrimination); *Hutto v. Finney*, 437 U.S. 678, 693-94 (1978) (statute abrogated state immunity from award of attorney's fees), or on the authority of the Commerce Clause, wherein the states are deemed to have consented to suit on congressionally created causes of action against a state, *Pennsylvania v. Union Gas Co.*, 491 U.S. 1, 19-23 (1989) (plurality). Such abrogation of immunity must be explicit and unambiguous, and must show clearly that Congress intended to subject the states to suit in federal court. *Atascadero State Hosp. v. Scanlon*, 473 U.S. 234, 240 (1985); *Union Gas*, 491 U.S. at 7-13.

A state may waive its immunity, in its entirety or as to any specified agency, action, or event. "[T]he Court consistently has held that a State may consent to suit against it in federal court." *Pennhurst*, 465 U.S. at 99. "The immunity from suit belonging to a State, which is respected and protected by the Constitution . . . is a personal privilege which it may waive at pleasure[.]" *Clark v. Barnard*, 108 U.S. 436, 447 (1883). Waiver by a state can be effected by state statute or state constitution or by clear state conduct. A state statute may be construed to waive Eleventh Amendment immunity. *Port Authority Trans-Hudson Corp. v. Feeney*, 495 U.S. 299 (1990) (reference in state statute to "judicial district, established . . . by the United States" shows intent to include suit in federal court in statutory waiver). A state may by its

actions be deemed to have waived its immunity as to a specific cause. *Clark v. Barnard*, 108 U.S. at 436 (state's filing of a claim in federal court waived Eleventh Amendment immunity as to the subject matter of that claim). The Court in *Atascadero State Hospital*, stressing the need for specificity in waiver by the state, held that Article III, § 5 of the California Constitution, which provides that "[s]uits may be brought against the State in such manner and in such courts as shall be directed by law", is not a general waiver of immunity in federal court. 473 U.S. at 241.

The California Constitution also contains a specific waiver of immunity for the University. Through its Regents the University is "vested with the legal title and the management and disposition of the property of the university", and is granted "all the powers necessary or convenient for the effective administration of its trust, including the power to sue and to be sued". Cal. Const. art. IX, § 9(f). However, an authorization to an arm of the state to sue and be sued is not presumed to include suit in federal court. *Great Northern Life Ins. Co. v. Read*, 322 U.S. 47, 54 (1944); *Atascadero State Hosp.*, 473 U.S. at 241.

In addition to abrogation and state waiver of immunity, state officials may be sued as individuals in certain circumstances. *Ex Parte Young*, 209 U.S. 123 (1908). Genentech sought to amend its complaint to include the individual Regents of the University, upon the district court's holding of Eleventh Amendment immunity. Genentech appeals from the denial of that request. We need not reach this question for, as we next discuss, the University's immunity has been abrogated as to the major issues in suit.

B

Public Law 102-560

Genentech argues that since patent rights can be enforced only in federal court, and the University has used its power to sue and be sued for the purpose of conducting and threatening patent litigation in federal court, the University has waived its immunity from suit in federal court. It has become unnecessary to decide this question broadly, for in legislation enacted October 28, 1992 Congress abrogated state immunity from suit for violation of patent law.

Patent and Plant Variety protection Remedy Clarification Act, Pub. L. No. 102-560, 106 Stat. 4230 (1992). The Patent Clause, the Commerce Clause, and § 5 of the Fourteenth Amendment were mentioned as authority for this legislation. S. Rep. No. 280, 102d Cong., 2d Sess. 7-8 (1992) (*"Senate Report"*), 1992 U.S.C.C.A.N. 3087.

When the purpose of a federal statute is to abrogate a state's immunity from suit, that abrogation must be explicit and unequivocal. *Atascadero State Hosp.*, 473 U.S. at 243; *Union Gas*, 491 U.S. at 7. Thus, the following provisions were added to Title 35 of the federal code:

> **35 U.S.C. § 271(h).** As used in this section, the term "whoever" includes any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity. Any State, and any such instrumentality, officer, or employee, shall be subject to the provisions of this title in the same manner and to the same extent as any nongovernmental entity.
>
> **35 U.S.C. § 296. Liability of States, instrumentalities of States, and State officials for infringement of patents.**
>
> **(a) IN GENERAL.**--Any State, any instrumentality of a State, and any officer or employee of a State or instrumentality of a State acting in his official capacity, shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal court by any person, including any governmental or nongovernmental entity, for infringement of a patent under section 271, or for any other violation under this title.
>
> **(b) REMEDIES.**--In a suit described in subsection (a) for a violation described in that subsection, remedies (including remedies both at law and in equity) are available for the violation to the same extent as such remedies are available for such a

> violation in a suit against any private entity. Such remedies include damages, interest, costs, and treble damages under section 284, attorney fees under section 285, and the additional remedy for infringement of design patents under section 289.

Pub. L. No. 102-560, §§ 2(a)(1) and 2(a)(2), 106 Stat. 4230 (1992).

The University does not seriously dispute that this enactment abrogated an area of state immunity. The University argues, however, that this enactment relates only to patent infringement by the state; that it does not encompass declaratory actions against the state; that it does not abrogate the University's immunity from Genentech's antitrust and state law tort and contract claims; and that the enactment does not apply to the action at bar.

1. Infringement and Other Violations Under the Patent Law.

The University argues that it is incorrect to apply Public Law 102-560 to any violation under Title 35 other than patent infringement by the state. Thus the University asserts that none of the issues of Genentech's declaratory complaint is subject to suit by virtue of this enactment.

The University states that the new 35 U.S.C. § 271(h) merely addresses the definition of "whoever" for purposes of infringement actions under the existing § 271, and that the caption of 35 U.S.C. § 296 makes clear the intended limitation of that provision to infringement by the state. The University argues that Congress did no more than overrule *Chew v. California*, 893 F.2d 331 (Fed. Cir.), *cert. denied*, 498 U.S. 810 (1990) and *Jacobs Wind Electric Co. v. Florida Department of Transportation*, 919 F.2d 726 (Fed. Cir. 1990), for in *Chew* and *Jacobs Wind* this court held that the Eleventh Amendment provides the states with absolute immunity from suit for patent infringement.

Genentech argues that Public Law 102-560 by its terms is not limited to infringement by the state, and that the words "or for any other violation under this title" in § 296(a) leave no doubt that the abrogation applies to all violations under Title 35 by the state. Genentech points to the plain language of the statute, its explicit statement of intent, and the absence of exceptions in either the statute or the legislative history.

The starting point in interpreting any act of Congress is the text of the statute itself. The words of a statute are deemed to have their plain meaning in the lexicon of the subject matter of the legislation. *United States v. Rutherford*, 442 U.S. 544, 551-52 (1979) (plain language of statute controls unless it leads to "'absurd results', or consequences obviously at variance with the policy of the enactment as a whole"). When the statutory text is clear, when the legislative intent is unmistakable, and when the legislative intent is implemented by the statute, that ends the inquiry.

Should the statutory text be afflicted by ambiguity in meaning or in application to a particular case, the legislative history can often provide useful guidance. Only in the rare case, when "the literal application of a statute will produce a result demonstrably at odds with the intention of its drafters", should a statute be construed in departure from its plain language. *Griffin v. Oceanic Contractors*, Inc., 458 U.S. 564, 571 (1982). This is not such a rare case.

Public Law 102-560 explicitly abrogates state immunity from suit for all violations under Title 35, unlimited to the factual situation of *Chew* and *Jacobs Wind* where the only violation was infringement by the state. A statute must be interpreted to give effect to each of its provisions. *United States v. Nordic Village, Inc.*, 112 S. Ct. 1011, 1015 (1992) ("settled rule that a statute must, if possible, be construed in such fashion that every word has some operative effect"); *Colautti v. Franklin*, 439 U.S. 379, 392 (1979) (it is an "elementary canon of construction that a statute should be interpreted so as not to render one part inoperative"); *United States v. Menasche*, 348 U.S. 528, 538-39 (1955) ("The cardinal principle of statutory construction is to save and not to destroy. It is our duty to give effect, if possible, to every clause and word of a statute . . . rather than to emasculate an entire section.") (Citations and quotations omitted.) Thus the words "or for any other violation under this title" can be neither judicially excised nor judicially ignored. Indeed, the legislative history shows the intent of Congress that states not be immune from the federal laws governing intellectual property. *Senate Report* at 11.

The University position is supported in the observation that the headings of 35 U.S.C. §§ 271 and 296 mention only infringement. Headings are often helpful in interpreting an ambiguous text.

Immigration and Naturalization Serv. v. National Ctr. for Immigrants' Rights, 112 S. Ct. 551, 556 (1991). However, there is

> the wise rule that the title of a statute and the heading of a section cannot limit the plain meaning of the text. For interpretative purposes, they are of use only when they shed light on some ambiguous word or phrase. . . . But they cannot undo or limit that which the text makes plain.

Brotherhood of R.R. Trainmen v. Baltimore & Ohio R.R., 331 U.S. 519, 528-29 (1947) (citations omitted). The text of Public Law 102-560 is not ambiguous. The text does not contradict the section headings, although it is broader than the headings. Headings can not of themselves operate to take a significant portion of the textual subject matter out of the statute. It would be incorrect to apply these headings to nullify the clause "or for any other violation under this title."

The conclusion that Public Law 102-560 is not limited to infringement by the state is reinforced by the explicit statement, in each section of the enactment, that its purpose is to place the states in the same position as nongovernmental entities as to the patent law. 35 U.S.C. §§ 271(h), 296(a) and (b). That purpose would not be achieved by the University's interpretation, for if the states were to continue to be immune from suit for violation of all provisions of Title 35 other than infringement, the states would not be coequal with nongovernmental entities. In introducing this legislation Senator DeConcini stressed that "States continue to take advantage of the sovereign immunity loophole that remains in the Patent Code". 137 Cong. Rec. S4046 (daily ed. Mar. 21, 1991). It would be incorrect to truncate the statute which as written achieves the legislative purpose, thereby to reopen the loophole that the statute was designed to close.

We conclude that Public Law 102-560 includes, in its abrogation of state immunity, all violations under Title 35 with respect to a patent owned by the state.

2. The Declaratory Action.

The University points out that declaratory action against a state is not mentioned in Public Law 102-560, and argues that state immunity was not abrogated for suit by declaratory action. Genentech states that the University never had immunity from declaratory action when the University itself created the case of actual controversy, and in all events that since the University violated the Patent Act by obtaining and enforcing an invalid, unenforceable, and uninfringed patent, the statutory abrogation of immunity clearly includes this declaratory action.

A declaratory action neither confers nor constrains jurisdiction or immunity. The Declaratory Judgment Act does not provide a substantive right; it provides a procedure whereby an aggrieved person may obtain a declaration of legal rights and relations. *See Skelly Oil Co. v. Phillips Petroleum Co.*, 339 U.S. 667, 671-72 (1950) (the declaratory judgment statute is not an independent basis for jurisdiction); *Aetna Life Ins. Co. v. Haworth*, 300 U.S. 227, 240 (1937) (the Declaratory Judgment Act is procedural only); 6A Moore *et al., supra*, ¶ 57.05 (the Declaratory Judgment Act is remedial and procedural in nature, creates no substantive rights, and neither augments nor diminishes federal jurisdiction). It is the Patent Act that states the law; the declaratory judgment procedure may be invoked when there is a controversy concerning an assertion of substantive rights under the Patent Act. To determine jurisdiction or immunity as to a particular cause of action it is necessary to look to the substantive violation and other relevant criteria, not to the procedure for obtaining relief.

An action seeking declaration of patent invalidity arises under the patent law, *C.R. Bard, Inc. v. Schwartz*, 716 F.2d 874, 879-80 (Fed. Cir. 1983), as do actions seeking declaration of infringement, *see Lang v. Pacific Marine & Supply Co.*, 895 F.2d 761, 763-64 (Fed. Cir. 1990), and declaration of noninfringement, *see Cordis Corp. v. Medtronic, Inc.*, 835 F.2d 859, 862-63 (Fed. Cir. 1987). *See generally* Borchard, *supra*, at 808 (declaratory actions on infringement or validity, initiated by a patentee or alleged infringer, arise under the patent law).

Title 35 contains a variety of provisions that are subject to ...ation. *E.g., Chemcast Corp. v. Arco Indus. Corp.*, 913 F.2d 923,

930 (Fed. Cir. 1990) (discussing violation of requirement of § 112 to disclose the best mode); *J.A. LaPorte, Inc. v. Norfolk Dredging Co.*, 787 F.2d 1577, 1583 (Fed. Cir.), *cert. denied*, 479 U.S. 884 (1986) (discussing violation of § 102(b) based on on-sale activity); *Brooktree Corp. v. Advanced Micro Devices, Inc.*, 977 F.2d 1555, 1571 (Fed. Cir. 1992) (discussing violation of utility requirement of § 101).

Although claims of patent invalidity are not actionable absent an actual controversy, *International Medical Prosthetics Research Assocs., Inc. v. Gore Enter. Holdings, Inc.*, 787 F.2d 572, 576 (Fed. Cir. 1986), in this case the actual controversy arose when the University accused Genentech of patent infringement. *Arrowhead*, 846 F.2d at 735-36; *C.R. Bard*, 716 F.2d at 881-82. The issues of invalidity and noninfringement that were raised by Genentech in seeking resolution of that controversy are encompassed by the legislative abrogation of state immunity. Public Law 102-560, abrogating states' immunity from suit under the patent statute, necessarily includes permitting the states to be a defendant in a suit asserting that the patent is in violation of the law. There is no exception in Public Law 102-560 that preserves state immunity depending on the procedure by which issues are raised. Indeed, such an exception would contravene the legislative purpose of conferring equal status on states and nongovernmental entities under the patent law.

We conclude that Genentech's declaratory action against the University is within the statutory abrogation of state immunity, for the counts of the complaint that arise under the patent law.

3. The Effective Date.

The University argues that even if its immunity were abrogated by Public Law 102-560, that abrogation does not apply to this case. The Act states:

> **Sec. 4. Effective Date.**
>
> The amendments made by this Act shall take effect with respect to violations that occur on or after the date of the enactment of this Act.

Pub. L. No. 102-560, § 4, 106 Stat. 4230, 4232 (1992). Since the Act does not abrogate immunity for violations that occurred before October 28, 1992, the University asserts that it does not apply to cases filed before that date.

Genentech invokes the general rule that changes in law apply to cases that are pending before the courts, unless the interest of justice, or the law itself, requires otherwise. "[A] court is to apply the law in effect at the time it renders its decision, unless doing so would result in manifest injustice or there is statutory direction or legislative history to the contrary." *Bradley v. School Bd.*, 416 U.S. 696, 711 (1974); *see Andrus v. Charlestone Stone Prods. Co.*, 436 U.S. 604, 607-08 n.6. (1978) (applying statute enacted while appeal was pending). This general rule has been applied to congressional abrogations of state immunity. *E.g., Pennsylvania v. Union Gas Co.*, 491 U.S. 1 (1989) (Superfund amendments, enacted while petition for certiorari pending, applied to abrogate state's Eleventh Amendment immunity); *United States v. Alabama*, 362 U.S. 602, 604 (1960) (Civil Rights Act of 1960, enacted shortly before the Supreme Court heard the case, applied to abrogate state immunity for past violations). Thus a suit that may have been subject to state immunity at the time it was filed can continue to be prosecuted when the immunity is legislatively lifted. Requiring dismissal "would be wasteful to both the parties and the courts . . . for [the case] could be at once refiled." *Sandefur v. Cherry*, 718 F.2d 682, 684-85 (5th Cir. 1983). In the absence of "manifest injustice", *Bradley*, 416 U.S. at 711, we apply Public Law 102-560 to this case.

Public Law 102-560 provides in effect that there shall be no recovery for violations that occurred before October 28, 1992. This accords with the general rule that "a retrospective operation will not be given to a statute . . . unless such be the unequivocal and inflexible import of the terms, and the manifest intention of the legislature." *Union Pac. R.R. v. Laramie Stock Yards Co.*, 231 U.S. 190, 199 (1913) (citations and quotations omitted). Since Genentech's suit is for a declaration of rights and relationships, and not for recovery of damages for past violations under Title 35, and since violations of patent rights are continuing events, it appears to be unnecessary to decide whether there was an earlier non-statutory waiver of University immunity with respect to the patent counts. We thus do not reach the question of whether the University by its

conduct had waived any immunity it may have had from suit under the patent law. It is, however, necessary to consider the disposition of the antitrust and state law counts of Genentech's declaratory complaint, for these counts are not within the statutory abrogation, and all of the counts were dismissed on the basis of state immunity.

C

The Antitrust and State Law Counts

Genentech's complaint as amended included charges that various agreements between Lilly and the University, and certain actions taken by the University at the behest of Lilly, constituted violations of sections 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1, 2, as amended.[4] Genentech also charged that the University's agreements and actions violated state laws relating to unfair competition, fraud, breach of contract, breach of third party obligations, and tortious interference with contract. Genentech also claimed that its 1980 contract with the University estops the University from charging Genentech with infringement. Genentech states that these actions render the '877 patent unenforceable against it, and also serve to recoup any damages that Genentech might incur for infringement. Genentech thus argues that inclusion of the antitrust and state law counts in this litigation is necessary to avoid injustice, and to resolve all of the issues between the parties.

The district court's dismissal of these counts was grounded on the University's asserted Eleventh Amendment and State Action immunities. Review of this dismissal, which was in terms of Federal Rules 12(b)(1) and 12(b)(6), requires that the factual

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[4] **15 U.S.C. § 1** (in part). Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal.

15 U.S.C. § 2 (in part). Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony.

premises and allegations of Genentech's complaint be deemed established. We outline some of the facts, undisputed for this purpose, that are relevant to the antitrust and state law counts:

Lilly provided funding for certain research at the University relating to the subject matter of the '877 patent, and had the option to acquire from the University the exclusive license to any patent that resulted from the Lilly-funded research. Certain other research was funded by HEW, and was subject to the requirement that any patent resulting from HEW-funded research would be made available to qualified applicants by non-exclusive license. The University had in 1980 entered into an agreement with Genentech that provided, *inter alia*, that the University would notify Genentech if Lilly exercised its option for an exclusive license, so that, according to Genentech, it could obtain a mandatory sublicense. Genentech states that at the behest of Lilly the University obtained, through misrepresentations and omissions of fact, a waiver of HEW's licensing requirement, and the University and Lilly then entered into an exclusive license, with payment by Lilly of a royalty to the University. Among other terms, this license provided that the University would at Lilly's request enforce the '877 patent against infringers, and that if the University did not take such requested legal action it would forfeit the royalty payments.

Genentech premised its antitrust and state law tort and contract charges on these and related events. The district court dismissed the antitrust and state law counts as barred by the Eleventh Amendment, and the antitrust counts as barred by the State Action doctrine. In view of the abrogation of immunity for violation of patent law, Public Law 102-560, we first consider the relation of these counts to the patent counts.

1. Defenses.

Genentech points out that the University must plead its charge of patent infringement in response to Genentech's action for declaration of noninfringement, lest the University's charge be barred as *res judicata*. *See* Fed. R. Civ. P. 13(a); *Baker v. Gold Seal Liquors, Inc.*, 417 U.S. 467, 469 n.1 (1974); *Southern Constr. Co. v. Pickard*, 371 U.S. 57, 60 (1962). Genentech states that its antitrust and state law claims are an integral part of its defense to

the University's charge of patent infringement, and therefore that these claims are appropriately raised in the declaratory judgment complaint. *See Foster v. Hallco Mfg. Co.*, 947 F.2d 469, 479 (Fed. Cir. 1991) (the "claim" of a declaratory judgment action is based on the patent owner's charge of infringement; the declaratory complaint raises anticipatory defenses to this charge). The University's position is that it is irrelevant whether any of the antitrust and state law claims are defenses or counterclaims to the charge of patent infringement, for they were not included in any abrogation or waiver of the University's immunity from suit in federal court. Thus the University asserts that these claims can not be raised against it in this action.

When a state maintains a claim in federal court it thereby consents to the exercise of federal judicial authority over that claim "to the full extent required for its complete determination." *Clark v. Barnard*, 108 U.S. at 448. The principles of federalism underlying the Eleventh Amendment do not prevent a person from defending against an action by a state. *See In re Regents*, 964 F.2d at 1134 (the Eleventh Amendment is not designed to give procedural advantage to state claimants); *In re Greenstreet, Inc.*, 209 F.2d 660, 664 (7th Cir. 1954) (when the government initiates legal action it thereby "consents to the jurisdiction of the court to entertain any defensive plea").

The University's charge of patent infringement is the claim that creates the controversy which supports the declaratory judgment action. The Eleventh Amendment does not bar the raising by Genentech of its defenses to the University's charge of patent infringement, whether these defenses arise under federal or state law. Thus the counts that are defenses to the charge of patent infringement, such as the defense of contract-based estoppel and the defense of unenforceability based on antitrust violation, are as available to the accused infringer as are the defenses of patent invalidity and noninfringement.

Although the University argues that it has not consented to the adjudication of any state law theories in federal court, consent is not required as to defenses to the University's charge of patent infringement. The University asserts that *Pennhurst* prohibits a private party from maintaining any state law claim against a state in federal court. *See* 465 U.S. at 106 ("it is difficult to think of a

greater intrusion on state sovereignty than when a federal court instructs state officials on how to conform their conduct to state law"). In *Pennhurst* the petitioner sought to coerce state action. There was no issue of defending against state charges or threatened charges by invoking state law. The affront to principles of federalism addressed in *Pennhurst* is not present here.

Genentech also states that the University committed fraud in the patent office in obtaining a Certificate of Correction under conditions that Genentech alleges did not meet the requirements of 35 U.S.C. § 255. Such acts if proved would in any event violate the patent law, and to that extent state immunity was abrogated by Public Law 102-560, which applies to "the eleventh amendment [or] any other doctrine of sovereign immunity". 35 U.S.C. § 296(a).

2. Counterclaims.

Nor is the University's consent required for those counterclaims that are properly raised in recoupment of the University's charges. The general rule, although not without debate, is that when a governmental entity has waived its immunity from federal judicial authority by taking legal action in federal court, the person charged can raise all counterclaims that arise from the same transaction or events. *E.g., Livera v. First Nat'l State Bank*, 879 F.2d 1186, 1195-96 (3d Cir.), *cert. denied, Livera v. Small Business Admin.*, 493 U.S. 937 (1989) ("a defendant may assert by way of recoupment *any claim* arising out of the same transaction or occurrence . . . in order to reduce or defeat the government's recovery") (emphasis in original). The summary by Professor Wright with respect to the federal government is applicable to states:

> Despite the sovereign immunity doctrine and the language of Rule 13(d), when the United States institutes an action, defendant may assert by way of recoupment any claim arising out of the same transaction or occurrence as the original claim in order to reduce or defeat the government's recovery. However, if defendant's claim arises from a different transaction or occurrence, then it is in effect an independent suit and it may be asserted

> as a setoff or counterclaim only if the government has waived its sovereign immunity.

6 Charles A. Wright *et al.*, *Federal Practice and Procedure* § 1427 (2d ed. 1990) (footnotes omitted). *See also In re Monongahela Rye Liquors, Inc.*, 141 F.2d 864, 869 (3d Cir. 1944) (recoupment rule applies to states); 3 James W. Moore & Richard D. Freer, *Moore's Federal Practice* ¶ 13.19[2.-2] (2d ed. 1992) (recoupment by counterclaims against a state) (collecting cases).

Cases applying this rule are highly fact-dependent, as the courts have considered whether an issue that was raised by counterclaim is suitable for recoupment of damages assessed in favor of the state. *E.g., United States v. Montrose Chem. Corp.*, 788 F. Supp. 1485, 1492-94 (C.D. Cal. 1992) (chemical company's state law counterclaims arising out of the same events as state's CERCLA action in federal court, with recovery limited to recoupment, does not violate Eleventh Amendment or sovereign immunity); *New York v. Johnstown*, 701 F. Supp. 33, 37-38 (N.D.N.Y. 1988) (state law compulsory counterclaims seeking recoupment against state-brought CERCLA claim do not violate state immunity); *Burgess v. M/V Tamano*, 382 F. Supp. 351, 355-56 (D. Me. 1974) (requiring that state law counterclaims arise out of the event underlying state's claim for damages); *Alaska v. O/S Lynn Kendall*, 310 F. Supp. 433, 434 (D. Alaska 1970) (limiting to recoupment defendant's potential recovery on state law counterclaims).

Depending on the particular facts, precedent is mixed as to whether the cause of action raised by counterclaim must be of the same category as the state's claim. For example, a tort claim has been held effective to recoup damages against a contract claim. *E.g., United States v. Irby*, 618 F.2d 352, 356-57 (5th Cir. 1980). The controlling factor is whether the counterclaim arose out of the same transaction or occurrence. *E.g., In re Monongahela Rye Liquors*, 141 F.2d at 869 (trustee's claim for money due for liquor sold to state manifestly unrelated to state's tax claim against the bankrupt estate).

Certain of Genentech's state law counts are properly viewed not as defenses but as counterclaims against the University's charge of infringement, such as the claims for tortious interference with

contract and unfair competition, whether these counterclaims are deemed "compulsory" determines whether they may be pursued in this action for purposes of recoupment of the University's claims against Genentech. Absent consent to suit or waiver or abrogation of immunity, affirmative relief beyond recoupment is not available on such claims. *See, e.g., United States v. Shaw*, 309 U.S. 495, 501-02 (1940) (rejecting the contention that when the sovereign voluntarily seeks the aid of the courts it thereby takes the form of a private suitor and fully subjects itself to any claim). Recoupment, however, is an established remedy based on the principle that neither sovereign immunity nor the principles of federalism prevents a private person from raising, in defense and setoff, claims that arise from the same transaction or occurrence on which the state is seeking to recover damages.

A counterclaim must be "compulsory" in order to be raised as of right in an area of law in which the state is otherwise immune from suit. *See* Fed. R. Civ. P. 13(a) (a compulsory counterclaim is one that arises out of the same transaction or occurrence as the opposing party's claim); *see generally* 3 Moore & Freer, *supra*, ¶ 13.13 (discussing transaction or occurrence requirement of Rule 13(a)). Such a counterclaim is usually "within the court's ancillary jurisdiction and an independent basis for federal jurisdiction is not necessary." 6 Wright *et al., supra*, § 1409 at 49. However, ancillary jurisdiction[5] alone may not override the Eleventh Amendment. *County of Oneida v. Oneida Indian Nation*, 470 U.S. 226, 251 (1985) (noting the *Clark* exception to *Pennhurst*); *Chemehuevi Indian Tribe v. California State Bd. of Equalization*, 757 F.2d 1047, 1053 (9th Cir.), *rev'd on other grounds*, 474 U.S. 9 (1985). In this case the University must bring its charges of patent infringement against Genentech or be forever barred from doing so. The University's immunity as to the patent counts having been abrogated, Genentech is now permitted to bring compulsory counterclaims that are suitable for recoupment of damages that may

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[5] The concepts of ancillary and pendent jurisdiction are now termed "supplemental jurisdiction". Judicial Improvements Act of 1990, Pub. L. No. 101-650, § 310, 104 Stat. 5089, 5113-14 (codified at 28 U.S.C. § 1367).

be assessed against it. Should the University choose to forego charging Genentech with infringement, these counterclaims would be subject to dismissal.

Although Genentech states that the University did not dispute that Genentech's antitrust and state law claims arose from the same transaction and events and thus are compulsory counterclaims, that is an overstatement. On the summary proceedings on which this case was decided, this question did not require decision by the district court. It is inappropriate for us to decide the issue *ab initio*, for neither the particular facts, nor the application of law to those facts, was developed in the district court. We hold only that on the basis of the pleading the dismissal of all of Genentech's antitrust and state law defenses and counterclaims was unwarranted under Rules 12(b)(1) and 12(b)(6). When proceedings are reopened the district court may determine which of Genentech's antitrust and state law counts meet the criteria of defenses and compulsory counterclaims to the University's charge of patent infringement, and thus are properly raised in this proceeding.

3. Antitrust Claims.

The district court held that the State Action doctrine provides immunity from the asserted violations of federal antitrust law. The principal antitrust issue raised in Genentech's pleading relates to the University's licensing activities. Genentech's position is that the University conspired with Lilly to exclude Genentech from the hGH market, in violation of the Sherman Act.

The State Action doctrine, although grounded on general principles of federalism, relates specifically to state sovereignty in state legislatively authorized activity. The doctrine provides immunity, or "exemption" as it is sometimes called, from federal competition laws when the state is performing official acts, whether or not these acts are anticompetitive in effect. As explained in *Parker v. Brown*, 317 U.S. 341 (1943), a case where California state officials were administering a legislatively-mandated program that had the purpose of restricting competition among raisin producers in California:

> We find nothing in the language of the Sherman Act or in its history which suggests that its purpose

> was to restrain a state or its officers or agents from activities directed by its legislature.

Parker, 317 U.S. at 350-51. The district court, applying this principle, dismissed Genentech's antitrust claims against the University.

To warrant *Parker* immunity the anticompetitive acts must be taken in the state's "sovereign capacity", and not as a market participant in competition with commercial enterprise. *Community Communications Co. v. Boulder*, 455 U.S. 40, 52 (1982). If the allegedly anticompetitive acts are not explicitly ordered by a legislative arm of state government, they must be conducted pursuant to legislative authorization that contemplates such acts. *Hoover v. Ronwin*, 466 U.S. 558, 567-68 (1984). As discussed in *City of Lafayette v. Louisiana Power & Light Co.*, 435 U.S. 389 (1978), *Parker* immunity permits the state to impose anticompetitive restraints "as an act of government." 435 U.S. at 391 (quoting *Parker*).

However, the policies underlying *Parker* do not extend to circumstances where the state acts not in a legislative/regulatory capacity but as a "commercial participant in a given market." *City of Columbia v. Omni Outdoor Advertising, Inc.*, 499 U.S. 365 (1991). *See South-Central Timber Dev., Inc. v. Wunnicke*, 467 U.S. 82, 102 (1984) (Rehnquist, J., dissenting) ("the antitrust laws apply to a State only when it is acting as a market participant"); *Jefferson County Pharmaceutical Ass'n, Inc. v. Abbott Lab.*, 460 U.S. 150, 154 (1983) (state university's participation in private retail markets renders it subject to Robinson-Patman Act); *Union Pacific R.R. v. United States*, 313 U.S. 450 (1941) (rebates and concessions made by city-run produce market integrated with railroad facilities violated the Elkins Act). *Cf. Reeves, Inc. v. Stake*, 447 U.S. 429, 436 (1980) (the distinction between the state as a market participant and the state as a market regulator "makes good sense and sound law" in Commerce Clause cases); *Employees of Dep't of Public Health & Welfare v. Department of Public Health and Welfare*, 411 U.S. 279, 284 (1973) (state activity was not of a proprietary, commercial nature, and was protected by principles of state sovereignty).

Genentech alleges that the University was not acting under state legislative or regulatory authority when the University assertedly violated the Sherman Act. Genentech states that the University has neither regulatory interest nor sovereign authority in the national market for hGH, and simply engaged in profit-making commercial activity. The University responds that it was merely exercising its authority and obligation to manage the property of the University. The University states that it does not participate in the hGH market; that it is not in competition with private enterprise; and that the licensing of a patent based on University research is not commercial activity but is part of a university's normal functions, serving the public purpose of aiding the movement of scientific research toward practical application.

We need not decide whether the University's licensing activities establish a market participant exception to State Action immunity, for Genentech has not pled facts which if proved constitute violation of the antitrust laws. The patenting and licensing of the results of University research is not a violation of antitrust principles, and the grant of an exclusive license is a lawful incident of the right to exclude provided by the Patent Act. The University's right to select its licensees, the decision to grant exclusive or non-exclusive licenses or to sue for infringement, and the pursuit of optimum royalty income, are not of themselves acts in restraint of trade. Although Genentech presses the position that the University and Lilly conspired to exclude Genentech from the hGH market, Genentech's pleading does not allege more substance than the University's grant of an exclusive license to Lilly; thus it is unnecessary to consider the applicability of the statement in *City of Columbia* that there is no "conspiracy exception" to State Action immunity. 111 S. Ct. at 1351.

For these reasons, the charge of antitrust violation in the licensing arrangement was correctly dismissed under Rule 12(b)(6). Accordingly, we do not reach the question of whether State Action immunity protects the challenged activities.[6]

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[6] We take note that in *City of Columbia* the Court expressly left open the question of whether antitrust action may be brought against a state when there is no *Parker* immunity. We too do not reach that question.

Summary

Dismissal of the declaratory action is vacated. Absent sound reason favoring a different forum, a first-filed suit is entitled to precedence against a subsequent suit.

The University is not immune from suit as to the patent counts, and as to those other counts that are defenses and compulsory counterclaims to the charge of patent infringement. Dismissal on these grounds is vacated. On remand the district court may determine which counts are thus properly asserted.

The dismissal of the antitrust count is affirmed.

No costs.

AFFIRMED IN PART, VACATED IN PART, and REMANDED

UNITED STATE DISTRICT COURT
SOUTHERN DISTRICT OF INDIANA
INDIANAPOLIS DIVISION

GENENTECH, INC.,	)	
	)	
Plaintiff,	)	
	)	
v.	)	CAUSE NO. IP 90-1679-C
	)	
ELI LILLY AND COMPANY, and	)	
THE REGENTS OF THE	)	
UNIVERSITY OF CALIFORNIA,	)	
	)	
Defendants.	)	

ORDER ON MOTION TO DISMISS AS TO
THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

This cause is before the Court on a motion to dismiss filed by defendant, The Regents of the University of California ("UC"). The issues raised have been briefed and are ready for resolution. For the reasons set forth, the Court GRANTS UC's motion to dismiss.

I. PROCEDURAL AND FACTUAL BACKGROUND

Plaintiff, Genentech, Inc. ("Genentech"), brought this action for a declaratory judgment against UC and Eli Lilly and Company ("Lilly") that U.S. Patent No. 4,363877, entitled "Recombinant DNA Transfer Vectors" ("the '877 patent") is invalid, not infringed by Genentech, and is unenforceable. Subsequently, antitrust and state claims were added. UC has filed a motion to dismiss it from all claims.

Both UC and Genentech have their principal places of business in California. Genentech is a Delaware corporation, and UC is a public corporation under the laws of California. Lilly is an Indiana corporation with its principal place of business in Indianapolis.

On August 6, 1990, Genentech filed a declaratory judgment action in this court. At that time, it was clear to Genentech that UC intended to file a patent infringement suit in California on or before August 8, 1990. On August 7, 1990, UC filed a patent infringement suit, concerning the same patent, against Genentech in the United States District Court for the Northern District of California.

As the complaint in this Court now stands, Genentech requests declaratory relief; alleges violation of §§ 1 and 2 of the Sherman Act, 15 U.S.C. §§ 1, 2; fraud; breach of third party beneficiary obligations; breach of the settlement agreement; unfair competition in violation of California law; and tortious interference with contract and with prospective business advantage.

II. DISCUSSION

The primary issue to be addressed is whether the Eleventh Amendment is a complete jurisdictional bar to Genentech's suit against UC.[1] The eleventh Amendment precludes the maintenance in federal court by private parties of legal or equitable actions against a State absent the State's consent to federal jurisdiction, or an express statement by Congress in a federal statute that the State in subject to suit on that statute in federal court. *Pennhurst State School & Hospital v. Halderman*, 465 U.S. 89 (1984); *Welch v. Texas Dept. of Highways & Public Transp.*, 483 U.S. 468, 479-88 (1987).

A. STATUS OF UC

The first issue to be addressed is whether UC is entitled to the protections of the Eleventh Amendment.

The University of California is empowered by the California Constitution. Article IX, Section 9(a) provides:

---

[1] The Eleventh Amendment to the United States Constitution provides:

> The judicial power of the United States shall not be construed to extend to any suit in law or equity, commenced or prosecuted against on the United States by Citizens of another State, or by Citizens or Subjects of any Foreign State.

> The University of California shall constitute a public trust, to be administered by the existing corporation known as "The Regents of the University of California," with full powers of organization and government, subject only to such legislative control as may be necessary to ensure the security of its funds. . .

In describing the organization of the University of California, the California Attorney General has stated:

> Only a few universities in the United States are organized in a manner similar to the University of California. The University of California is a state institution. It is a constitutional corporation or department and constitutes a branch of the state government equal and coordinate with the legislature, the judiciary and the executive. The Regents in operating the University are generally free of legislative interference and control. The constitution expressly makes the Regents subject only to limited legislative control. The Regents, not the legislature, have the general rule-making or policy-making power in regard to the University . . . It is clear . . . that the power of the Regents to operate, control, and administer the University is virtually exclusive.

30 Ops. Atty. Gen. 162, 166 (1957) (citations omitted).

The Ninth Circuit has held that actions by UC are actions by the state. *BV Engineering v. University of California, Los Angeles*, 858 F.2d 1394, 1395 (9th Cir. 1988), *cert. denied*, 489 U.S. 1090 (1989). The Ninth Circuit held that, "The University of California and the Board of Regents are considered to be instrumentalities of the state, and therefore enjoy the same immunities as the State of California." *Id.* at 1395 (citation omitted). For the foregoing reasons, the Court concludes that UC is an instrumentality of the State of California for Eleventh Amendment purposes. Therefore, actions by UC are entitled to the protection of the Eleventh Amendment. *Accord, Korf v. Ball State University*, Cause No. IP 82-901-C (S.D. Ind. 1983).

B. DECLARATORY JUDGMENT

1. Eleventh Amendment Analysis

Congress did not abrogate California's Eleventh Amendment immunity in enacting patent law. *Chew v. State of California*, 893 F.2d 331, 332 (Fed. Cir.), *cert. denied*, 111 S. Ct. 44 (1990), *Jacobs Wind Electric Co., Inc. v. Florida Dept. Of Transportation*, 919 F.2d 726 (Fed. Cir. 1990).

Genentech is essentially arguing that by baring [sic] patent actions against a state in federal court, the private party is left without a remedy because states have no authority to determine the validity of a patent. The Federal Circuit Court, which has exclusive jurisdiction over appeals in all patent cases rejected this argument in *Jacobs Wind Electric* because the plaintiff could have brought a state action takings claim against the state under the Fifth and Fourteenth Amendments. While this may not be the desired remedy, it is a remedy. Genentech tries to distinguish the above cases from the instant situation because here the state owns the patent. In the above cases, the plaintiff owned the patent. Genentech argues that whether the state has waived immunity is a different question from whether Congress has abrogated it. Genentech is correct. However, where the state has done nothing to waive Eleventh Amendment immunity except to become a patent holder, the answer is the same. While this holding may result in a state being immune from a declaratory judgment action concerning a patent it owns in the vast majority of situations, this policy argument will not be addressed because Genentech's declaratory judgment suit must be dismiss even without considering the Eleventh Amendment.

2. Tempco Analysis

In a declaratory judgment action involving a disputed trademark, the Seventh Circuit recently held that a declaratory judgment suit should be dismiss [sic] if filed in anticipation of an infringement suit. *Tempco Elec. Heater Corp. v. Omega Engineering, Inc.*, 819 F.2d 746 (7th Cir. 1987). *Accord, A.G. Edwards & Sons, Inc. v. Public Bldg. Com'n of St. Clair County, Ill.*, 931 F.2d 118 (7th Cir. 1990). In *Tempco*, the plaintiff, an

Illinois corporation, manufactured electric heaters and temperature control devices. The plaintiff owned a federally registered trademark for its heaters which included the greek letter omega. It also used this mark, without federal registration for its temperature devices since the 1970's. The defendant, a Delaware corporation with its principal place of business in Connecticut, also manufactured temperature control devices. Like the plaintiff, the defendant had a federally registered trademark with used the greek letter omega.

Believing that the plaintiff's use of the omega symbol on temperature control devices infringed on its trademark, the defendant contracted the plaintiff and threatened litigation. The plaintiff stated its disinclination to comply with the demand to remove the symbol for its temperature control devices, and filed a declaratory judgment action in the Northern District of Illinois. Four days later, the defendant filed an infringement action in the District of Connecticut, and moved to dismiss the declaratory judgment action on the ground that the infringement actions involved the same facts, parties and issues. The district court granted the motion to dismiss, and the Seventh Circuit affirmed. *Tempco*, 819 F.2d at 746-47.

In affirming the district court, the Seventh Circuit reiterated that "the federal courts have discretion to decline to hear a declaratory judgment action, even though it is within their jurisdiction." *Tempco*, 819 F.2d at 747 (citations omitted). In applying this discretion, the district court is not to rigidly follow the first-to-file rule, and decline to hear the declaratory judgment action only if the infringement action is filed first. *Tempco*, 819 F.2d at 750. Instead, the court is to determine whether the declaratory judgment action was filed in anticipation of an infringement action. *Tempco*, 819 F.2d at 749. The Seventh Circuit held that "[w]here the declaratory judgment action is filed in anticipation of an infringement action, the infringement action should proceed, even if filed four days later." *Tempco*, 819 F.2d at 749. The purpose of a declaratory judgment action is to prevent one party from continually accusing the other, to his detriment, without the first party invoking a coercive remedy. However, where the declaratory judgment defendant promptly filed an infringement suit, a declaratory judgment would serve no useful purpose. *Tempco*, 819 F.2d at 749.

The Seventh Circuit also rebuffed the argument that by dismissing the declaratory judgment, the court has deprived the plaintiff of its right to choose the forum. The purpose of a declaratory judgment is to force adjudication of the parties' rights. A declaratory judgment does not involve a right to forum preference. So long as an infringement action is filed, even if in another district court, the purposes of the declaratory judgment have been served. *Tempco*, 819 F.2d at 749-50.

Here, Genentech filed this declaratory judgment suit because it knew UC was about to file an infringement suit, and in fact did file the suit one day later. Plainly the declaratory judgment action was filed in anticipation of an infringement action. *Tempco* controls, and accordingly, the declaratory judgment action is dismissed.

C. ANTITRUST

Next, UC contends that it is immune from liability under the Sherman Antitrust Act. As the Seventh Circuit has stated:

> When the state itself in one of its incarnations performs the challenged activity, it is ipso factor immune from the antitrust laws . . . . Once it is determined that the action is taken by the state itself, whether or not pursuant to some clear state policy, courts need not engage in any further inquiry—they must dismiss the federal antitrust claim.

Fuchs v. Rural Elec. Convenience Co-op, Inc., 858 F.2d 1210, 1214 (7th Cir. 1988) (citations omitted), *cert. denied*, 490 U.S. 1020; *see Parker v. Brown*, 317 U.S. 341, 351 (1943); *Hoover v. Ronwin*, 466 U.S. 558, 568 (1984). Based on the above quotation, the determinative issue is whether UC's action are those of the state. As previously held, the actions by UC are considered those of the state itself. Therefore, UC is immune from liability under the Sherman Antitrust Act.

D. STATE CLAIMS

The Eleventh Amendment forbids a federal court from hearing pendent, state law claims against a State. *Pennhurst State School & Hosp. v.. Halderman*, 465 U.S. 89, 106 (1984). The Supreme Court has stated, "it is difficult to think of a greater intrusion on state sovereignty than when a federal court instructs state officials on how to conform their conduct to state law." *Id.* Thus, the state law claims against UC must be dismissed.[2]

III. CONCLUSION

In summary, the Court holds that all claims against the Regents of the University of California must be dismissed as they are barred by the Eleventh Amendment. Additionally, the Seventh Circuit case of *Tempco Elec. Heater Corp. v. Omega Engineering, Inc.*, requires the dismissal of the declaratory judgment claim. The remaining claims against Lilly will be heard concurrently with the related cases now before District Judge Dillin.

IT IS SO ORDERED this 4th day of February, 1991.

S/ Larry J. McKinney, JUDGE

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[2] Even if it was held that a federal court could address the state law claims, this Court is not the correct venue. The United States District Court for the Northern District of California would be the correct venue because it will hear the patent infringement action between the same parties. 28 U.S.C. § 1404(a).

United States Court of Appeals for the Federal Circuit

97-1099

GENENTECH, INC.,

Plaintiff-Appellant,

v.

REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Defendant-Appellee.

and ELI LILLY AND COMPANY,

Defendant,

and UNITED STATES,

Intervenor.

ORDER

A combined petition for rehearing and suggestion for rehearing in banc having been filed by the APPELLEE, and responses thereto having been invited by the court and filed by the APPELLANT and the INTERVENOR, and the petition for rehearing having been referred to the panel that heard the appeal, and having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the suggestion for rehearing in banc be, and the same hereby is, DECLINED.

The mandate of the court will issue on August 12, 1998.

FOR THE COURT,

Jan Horbaly
Clerk

Dated: August 5, 1998

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF INDIANA
INDIANAPOLIS DIVISION

GENENTECH, INC.,	x	FILED UNDER SEAL
Plaintiff,	x	
	x	Civil Action No.
- against -	x	IP 90-1679
	x	
	x	SECOND AMENDED
ELI LILLY AND COMPANY, and	x	COMPLAINT
THE REGENTS OF THE UNIVERSITY CALIFORNIA,	x	JURY TRIAL DEMANDED
Defendants.	x	

SECOND AMENDED COMPLAINT FOR DECLARATORY JUDGMENT

Plaintiff Genentech, Inc., for its Second Amended Complaint herein, avers that:

. . .

67. By on or about August 6, 1990, it had become clear to Genentech that (a) UC felt contractually precluded from granting Genentech a license under the '877 patent, and that Lilly refused to grant Genentech a sublicense under the patent on any reasonable terms, and (b) Lilly was pressuring UC to bring a bad faith, harassing suit against Genentech under the patent against Genentech. Genentech also believed that the suit would be brought in California for the reasons stated above.

68. Accordingly, Genentech filed the instant declaratory judgment action on August 6, 1990 in this Court.

No. 98-731

Supreme Court, U.S.
FILED
DEC 4 1998
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1998

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,

Petitioner,

—v.—

GENENTECH, INC., AND UNITED STATES OF AMERICA,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

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December 4, 1998

QUESTION PRESENTED

Did the Federal Circuit Court of Appeals err when it decided on the specific facts of this case that Petitioner, The Regents of the University of California, had waived its Eleventh Amendment Immunity and consented to suit by voluntarily engaging in litigation related conduct which created a case or controversy that could be resolved only by federal judicial authority?

Genentech, Inc. submits that this Court need not consider Question 2 of the Petition. The Federal Circuit Court of Appeals specifically refrained from deciding whether Congress validly abrogated Petitioner's Eleventh Amendment immunity, and this is not an exceptional case requiring review of issues not passed upon below.

PARTIES TO THE PROCEEDINGS
RULE 29.6 STATEMENT

Respondent is Genentech, Inc. (hereinafter "Genentech"). Roche Holdings Inc. (hereinafter "Roche") owns approximately 66% of the issued shares of Genentech; however Genentech remains an independent, publicly traded company and continues to operate entirely independently of Roche. Roche has an option to acquire the remaining shares of Genentech.

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IN THE SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1998

No. 98-731

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA,
Petitioner,

v.

GENENTECH, INC., AND THE UNITED STATES OF AMERICA
Respondents.

On Petition for a Writ of Certiorari
to the United States Court of Appeals for
the Federal Circuit

OPPOSITION TO PETITION FOR A WRIT OF CERTIORARI

Genentech, Inc. (hereinafter "Genentech") respectfully opposes the prayer of The Regents of the University of California (hereinafter "the University") that a writ of certiorari issue to review the Judgment and Opinion of the United States Court of Appeals for the Federal Circuit, dated May 4, 1998.

STATEMENT OF THE CASE

Pursuant to Supreme Court Rules 15 and 24, Genentech supplements the University's statement of the case as follows.

The Federal Circuit found that the University had engaged in a course of voluntary conduct which resulted in a waiver of its Eleventh Amendment Immunity. The University did not carry out that course of conduct in a vacuum, but in the context of pending federal litigation between Genentech and Eli Lilly and Company ("Lilly").

As the court below noted, this case is one of six cases consolidated in the District Court for the Southern District of Indiana by the Judicial Panel on Multidistrict Litigation.[1] Appendix to Petition (hereinafter "Pet. App.") at 2a-3a. These cases originated in 1987 and arose from various research and license agreements among the University, Genentech, and Lilly, a commercial competitor of Genentech. *See In re Regents*, 964 F.2d at 1130-31.

In defending against Genentech's allegations that Lilly's manufacture and sale of human growth hormone ("hGH") violated Genentech's patent and contract rights, Lilly alleged, *inter alia*, that Genentech caused the University to breach research agreements between the University and Lilly, and that Genentech intentionally interfered with Lilly's commercial relationship with the University, and "intentionally interfered with Lilly's prospective economic advantage arising from that relationship." *In re Recombinant DNA Technology*, 30 U.S.P.Q.2d at 1893.

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[1] For general background on this case and the other five cases involving the '877 patent and related patents and technology that were consolidated in multidistrict proceedings, the Court is referred to the decisions in *In re Regents of the Univ. of California*, 964 F.2d 1128 (Fed. Cir. 1992) and *In re Recombinant DNA Technology Patent and Contract Litigation*, 30 U.S.P.Q.2d 1881 (S.D. Ind. 1994).

At that time (i.e., in 1987), Lilly held an option which gave it the right to obtain an exclusive license to the patent-in-suit here, U.S. Patent No. 4,363,877 ("the '877 patent"), but the University and Lilly had not yet negotiated or executed a license agreement. *In re Recombinant DNA Technology Patent and Contract Litigation*, MDL Docket No. 912, IP-90-1679-C, slip op. at 2-4 (S.D. Ind. May 2, 1994). The execution was delayed because, among other things, the invention underlying the '877 patent had been made with federal support, and Lilly and the University had not yet obtained a waiver of the requirement that patents resulting from federally-supported research could be licensed only on a non-exclusive basis. *Id.* In 1987, the University applied for a waiver to the United States Department of Health, Education, and Welfare (hereinafter "HEW"), asserting that it expected litigation over the '877 patent, and that such litigation would make non-exclusive licensing uneconomical. Based on such representations, HEW granted a waiver to the University in 1988.

In 1989, the University granted an exclusive license under the '877 patent to Lilly. Among other things, the license required the University, at Lilly's request, to commence patent infringement proceedings against potential infringers. Pet. App. 27a. If the University failed to do so, Lilly could either sue in its own name or suspend payment of royalties. Lilly eventually requested that the University bring suit on the '877 patent against Genentech. Thereupon, the University threatened Genentech with a patent infringement suit in district court in California. The University made this threat while the federal litigation between Genentech and Lilly – involving patents, technology, research agreements, and license agreements that were related to human growth hormone – had been pending for three years. It is undisputed that Lilly's demand that the University sue Genentech on the '877 patent was designed to give Lilly an additional weapon in the then existing litigation.

On August 6, 1990, in response to the University's threat, Genentech brought this suit against the University in the District Court for the Southern District of Indiana seeking declaratory relief that the '877 patent is invalid, unenforceable, and not infringed by Genentech in its manufacture and sale of hGH

products. On the following day, the University filed an infringement suit against Genentech in the District Court for the Northern District of California.

In concluding that the University's course of conduct resulted in a waiver, the court below noted that the University's actions in procuring the '877 patent, licensing the patent to Lilly in return for royalties, granting Lilly the right to demand the University sue Genentech, and threatening Genentech with a patent infringement lawsuit are "not at the core of the educational/research purpose for which the University was chartered as an arm of the state," and that "this commercially-oriented activity is not central to the University's charter." Pet. App. 12a. In deciding the University's claim of sovereign immunity, the Federal Circuit found it "not irrelevant" that in 1994, the University received $50.2 million in royalties from patents, filed 389 patent applications, and received 126 patents. Pet. App. 12a, n. 6.

REASONS WHY THE PETITION SHOULD BE DENIED

I. The University Has Failed To Offer Compelling Reasons For Review

Rule 10 of the Supreme Court Rules states that, "[a] petition for a writ of certiorari will be granted only for compelling reasons." Sup. Ct. R. 10. Such reasons may include conflicting decisions between courts on an important matter; unsettled questions of national importance to the administration of federal law; or resolution of an important federal question in a way that conflicts with Supreme Court precedent. *See Layne & Bowler Corp. v. Western Well Works, Inc.*, 261 U.S. 387, 393 (1923). If the question presented by a petition for a writ of certiorari is academic, or important only to the parties, and not to the public, the petition should be denied. *Rice v. Sioux City Memorial Park Cemetery, Inc.*, 349 U.S. 70, 74 (1955). Rule 10 further states that, "[a] petition for a writ of certiorari is rarely granted when the asserted error consists of erroneous factual findings or the misapplication of a properly stated rule of law." Sup. Ct. R. 10.

Despite its best efforts, the University has failed to identify any deviation from this Court's precedents, any unsettled issue of public importance, or any genuine conflict among the circuits, which would justify consideration by this Court. The court below properly stated the law governing a State's waiver of Eleventh Amendment immunity and applied that law to facts that are unique to this case.

A. The Decision Below is Consistent with Supreme Court Precedent

Contrary to the University's contention, the decision below is fully supported by the Court's precedents and does not "undermine" the Court's holding in *Seminole Tribe of Fla. v. Florida*, 517 U.S. 44 (1996).

In *Seminole Tribe*, the Supreme Court acknowledged the "unremarkable . . . proposition that the states may waive their sovereign immunity." *Seminole Tribe*, 517 U.S. at 65. In support of that proposition, the Supreme Court cited *Parden v. Terminal Ry. of Ala. State Docks Dep't.*, 377 U.S. 184 (1964). Thus, it is unnecessary to speculate about whether a State can waive its Eleventh Amendment immunity by conduct.[2] By citing *Parden* for this proposition, the Court has confirmed that, under limited circumstances, a State can do so. Although the court below did not specifically rely upon *Parden*, its decision was based on the same "unremarkable" proposition.

It is well settled and beyond dispute that one form of conduct by which a State can manifest its willingness to waive sovereign immunity is the active invocation of federal judicial power. Indeed, it has been clear since the Supreme Court's decision in *Clark v. Barnard*, 108 U.S. 436, 447-48 (1883), that the invocation of federal judicial power by a State results in a waiver of Eleventh

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[2] While somewhat abrogated since its initial inception, the waiver doctrine defined in *Parden* is still well recognized and followed by the circuits. *See infra* at 13.

Amendment immunity to the extent necessary to enable the federal court to fully resolve the controversy between the parties.

Since *Seminole Tribe* was decided, several Courts of Appeals have reaffirmed this principle. For example, in *Clark v. State of California*, 123 F.3d 1267 (9th Cir. 1997), *cert. denied*, 118 S.Ct. 2340 (1998), the Ninth Circuit concluded that the State waived its Eleventh Amendment immunity when it voluntarily accepted funding under the Federal Rehabilitation Act of 1986, 42 U.S.C. § 2000d-7, which clearly subjected the State to federal lawsuits. In explicit reliance on *Seminole Tribe*, the Ninth Circuit stated:

> Even if Congress had not abrogated a state's immunity under the Eleventh Amendment, a state may waive it. *See Seminole Tribe*, 517 U.S. at ----, 116 S.Ct. at 1128. One way for a state to waive its immunity is to accept federal funds where the funding statute "manifest[s] a clear intent to condition participation in the program funded under the Act on a State's consent to waive its constitutional immunity." (citation omitted)

State of California, 123 F.3d at 1271.

The Ninth Circuit again confirmed this principle in *Premo v. Martin*, 119 F.3d 764, 769 (9th Cir. 1997), *cert. denied*, 118 S.Ct. 1163 (1998), when it held that the state of California had waived its Eleventh Amendment immunity by participating in a federal program which required the State to submit to binding arbitration proceedings. *Id.* ("[W]e believe that the overwhelming implication of the Act is that participating states have waived their sovereign immunity to suit in federal court for the enforcement of such awards.").

Moreover, in *In re Platter*, 140 F.3d 676, 679 (7th Cir. 1998), the court held that the Federal Bankruptcy Court had the authority to determine the dischargeability of debts owed to a State. Specifically, the Seventh Circuit stated:

> The Eleventh Amendment does not prevent a state from entering a federal forum voluntarily to pursue its own interest. However, if a state embarks down this route, it cannot run back to seek Eleventh Amendment protection when it does not like the result.

Id. at 680 (citations omitted).

Similarly, in *In re Straight*, the Tenth Circuit held that "[w]hen the State . . . files a claim against the [bankruptcy] fund, it waives any immunity which it otherwise might have had respecting the adjudication of the claim." *In re Straight*, 143 F.3d 1387, 1389-90, 1392 (10th Cir. 1998), ("Unlike §106a [of the Bankruptcy Code] which purports to abolish sovereign immunity across the board, §106b leaves the choice to the governmental unit. It can eschew bankruptcy relief and retain its immunity, or it can doff the protective cloak and join the ranks of creditors . . ." (*quoting Gardner v. New Jersey*, 329 U.S. 565, 574 (1947))), *cert. denied sub nom.*, -- S. Ct. --, 1998 WL 635722 (1998).

Thus, *Seminole Tribe* itself and cases decided after *Seminole Tribe* all confirm the continuing validity of the rule that a State, by invoking the federal judicial power, can waive its Eleventh Amendment immunity. The Federal Circuit applied this rule here. It neither created a new rule of law nor disregarded the Court's precedents.

The University argues that the decision below has the effect of expanding Congress' power to abrogate State immunity and so is in conflict with *Seminole Tribe*. However, this argument only confuses the distinct concepts of waiver — which involves a State's voluntary acts — and abrogation — which removes a State's immunity irrespective of the State's conduct. As the Court recognized in *Seminole Tribe*, the proposition that a State may waive its immunity is "unremarkable, and completely unrelated" to Congress' power to abrogate. *Seminole Tribe*, 517 U.S. at 65. The court below recognized this distinction and deliberately refrained from deciding the issue of abrogation. Pet. App. 10a ("We need not now decide the constitutional question, for we

conclude that the University has by its litigation-related actions waived its immunity and consented to suit.").

B. The University Has Not Identified Any Unsettled Issue Of Public Importance

The University contends that "there is no specific action that is necessary to create a case or controversy between a patent owner and an alleged infringer." Petition (hereinafter "Pet.") at 8. In fact, the Federal Circuit has laid down very specific guidelines regarding what actions are sufficient to invoke jurisdiction under the Declaratory Judgment Act.[3] These well-settled guidelines apply to all patent holders who threaten the economic activities of others by invoking the federal judicial power conferred with the grant of a patent.

C. There Is No Conflict Among The Courts

As the University correctly points out, the Federal Circuit Court of Appeals has exclusive jurisdiction with respect to appeals in cases arising under the patent laws, and thus, the issue of whether a State entity waives its sovereign immunity to suit in a declaratory judgment action for patent invalidity, unenforceability, and non-infringement will likely not be considered by any other circuit. Pet. at 7. This argument, however, does not support review by the Court. On the contrary, it means that no conflict

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[3] While the University correctly asserts that the "totality of the circumstances" test applies for declaratory judgment actions generally, the Federal Circuit has set forth a two part test for determining if a case or controversy has been established in the patent context. Such test requires: 1) an explicit threat or other action by the patentee which creates a reasonable apprehension of suit in the accosted party; and 2) present activity which could constitute infringement. *Hunter Douglas, Inc. v. Harmonic Design, Inc.*, 153 F.3d 1318, 1326 (Fed. Cir. 1998); *Fina Research, S.A. v. Baroid Ltd.*, 141 F.3d 1479, 1481 (Fed. Cir. 1998); *Super Sack Mfg. Corp. v. Chase Packaging Corp.*, 57 F.3d 1054, 1058 (Fed. Cir. 1995), *cert. denied*, 516 U.S. 1093 (1996); *BP Chems. Ltd. v. Union Carbide Corp.*, 4 F.3d 975, 978 (Fed. Cir. 1993).

will likely exist between the Federal Circuit and any other circuit court or state court concerning this issue.

D. The Federal Circuit's Decision Will Not Have Far Reaching Implications Since it Was Based Upon the Unique Facts of this Case

Despite the University's concern that the Federal Circuit has created some new and broadly applicable, but poorly defined, rule of law, the Federal Circuit's decision was based upon a unique set of facts. Pet. App. 4a, 11a ("[f]or on the facts of this case we conclude that the University waived its Eleventh Amendment immunity..."). Specifically, the court below described the University's course of conduct as including:

1. obtaining federal property rights which are not at the core of the educational/research purposes for which the University was chartered as an arm of the State, and which extend extraterritorially to the State, (namely, a U.S. patent);
2. licensing its patent on an exclusive basis to Lilly;
3. giving Lilly the right to demand that the University bring suit against Genentech in federal court; and,
4. threatening Genentech with suit in federal court when Lilly exercised its right to demand suit.

While the Federal Circuit saw fit to include only these particular, perhaps determinative, facts in its opinion, the entire relationship between the University, Genentech and Lilly was before the court. Thus, the court was able to consider the fact that the University executed the exclusive license agreement with Lilly while a patent infringement lawsuit was pending between Lilly and Genentech regarding this very technology, and that such agreement was mainly intended to provide Lilly a tool against Genentech in that litigation.

E. The University's Extensive Activities in Support of its Patent Portfolio Justify Finding a Waiver in this Case

Not only did the Federal Circuit apply settled law, it applied that law correctly. Ample factual evidence supports the court's conclusion that the University had "actively invoked" the judicial power of the federal courts. The University obtained hundreds of patents, each with nation-wide enforcement rights, entered exclusive license agreements, collected tens of millions of dollars in revenue and actively threatened enforcement of these patents in federal court.[4] With respect to the specific patent in suit here, the University gave Lilly — the University's exclusive licensee and Genentech's commercial competitor — the right to demand that the University bring a lawsuit against Genentech. It was pursuant to Lilly's demand that the University threatened to sue Genentech for infringement, after Genentech had already been selling its products for five years. This threat created a case or controversy meeting the standards of the Declaratory Judgment Act. 28 U.S.C. §§ 2201-02. There is no dispute on this point. *See* Pet. at 10, n.3. The court below was thus correct in concluding that "the declaratory action was enabled solely by the University's deliberate acts." Pet. App. 12a.

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[4] On at least two occasions, the University was plaintiff in the action. *See The Regents of the Univ. of Cal. v. Synbiotics Corp.*, 849 F. Supp. 740 (S.D. Cal. 1994) and *Regents of the Univ. of Cal. v. Howmedica*, 530 F. Supp. 846 (D.N.J. 1981), *aff'd*, 676 F.2d 687 (3rd Cir. 1982). Additionally, the University has been involved in numerous litigations regarding its patent-related activities. *See, e.g., Dieter v. The Regents of the Univ. of Cal.*, 963 F. Supp. 908 (E.D. Cal. 1997); *Candela Corp. v. The Regents of the Univ. of Cal.*, 976 F. Supp. 90 (D. Mass. 1997); *Brown v. Regents of the Univ. of Cal.*, 866 F. Supp. 439 (N.D. Cal. 1994); *Ciba-Geigy Corp. v. Alza Corp. and the Regents of the Univ. of Cal.*, 1993 WL 90412 (D.N.J. 1993); *Kucharczyk v. The Regents of the Univ. of Cal.*, 946 F. Supp. 1419 (N.D. Cal. 1996).

II. Parden Supports the Circuit Court's Decision That The University Has Waived its Eleventh Amendment Immunity

As the University acknowledges, the circuit court decision is supported by this Court's holding in *Parden*. Pet. at 16. Under the *Parden* doctrine of waiver, a State can waive its Eleventh Amendment immunity if: (1) Congress enacts a law conditioning participation in federally regulated activity upon waiver of immunity and the law gives notice to a State by clearly expressing Congress' intention to do so; (2) the state voluntarily participates in that activity; and (3) the activity is not a core government function. *See College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, 131 F.3d 353, 363 (3rd Cir. 1997). On the facts of this case, all requirements for waiver under this doctrine are met.

First, Congress has made clear its intention to subject States to suit in federal court for violations of the patent law in the same manner and to the same extent as private citizens, and to make participation in this federally regulated area of commercial activity conditional upon a State's waiver of immunity. 35 U.S.C. §§ 271(h), 296. Title 35 U.S.C. § 271(h) states that "[a]ny State...shall be subject to the provisions of [the Patent Act] in the same manner and to the same extent as any nongovernmental entity." Similarly, Title 35 U.S.C. § 296(a) provides that:

> Any State...shall not be immune, under the eleventh amendment of the Constitution of the United States or under any other doctrine of sovereign immunity, from suit in Federal Court by any person, including any governmental or nongovernmental entity for infringement of a patent under section 271, or any other violation under this title.

Second, the University voluntarily availed itself of the protections of the patent laws and invoked the authority of federal courts by threatening a patent suit and creating a case and controversy under the Declaratory Judgment Act.

Third, as the court below recognized, "the [University's] actions are not at the core of the educational/research purposes for which the University was chartered as an arm of the State." Pet. App. 12a. The Federal Circuit recently confirmed this principle in *College Savings* when it held that a State's involvement in patent infringement suits is part of the State's commercial activity, not its central political governance role. *College Savings,* 148 F.3d 1343, 1355 (Fed. Cir. 1998).

Rather than dispute whether its actions satisfied the requirements of *Parden*, the University instead questions the continued vitality of the *Parden* doctrine. Relying primarily on the Fifth Circuit's decision in *Chavez v. Arte Publico Press*, 139 F.3d 504, 508 (5th Cir.), *decision vacated and rehearing en banc granted*, Docket No. 93-2881 (5th Cir. Oct. 1, 1998), the University seeks to have the Court clarify the issue of whether a State can waive its immunity by participating in a federal program which requires waiver of immunity as a condition of participation.

But the University's reliance on the *Chavez* decision is misplaced since that decision was vacated pursuant to Fifth Circuit Local Rule 41.3. Under that rule, the Fifth Circuit's decision to rehear the case *in banc* automatically effects a vacatur of the previous decision and judgment. *See* Fifth Cir. R. 41.3 Thus, until the Fifth Circuit rehears the appeal and issues a new opinion,[5] the decision of the previous panel is not binding on any court and certainly cannot support review by this Court.

Further, *Chavez* suffers from the erroneous assumption that the Court in *Seminole Tribe* rejected the *Parden* doctrine of waiver. However, waiver was never an issue for the Court to decide in the *Seminole Tribe* case, as it was "undisputed that Florida ha[d] not consented to the suit." *Seminole Tribe*, 517 U.S. at 55. Moreover, in criticizing the plurality decision of *Union Gas* for misreading precedent and confusing the doctrines of waiver and abrogation, the Court confirmed the validity of the doctrine of waiver under *Parden*. *Id.* at 65.

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[5] Rehearing is currently scheduled for the week of January 18, 1999.

A comparison of the statute in *Seminole Tribe* with the patent laws demonstrates that the Fifth Circuit was wrong in concluding that *Seminole Tribe* overruled *Parden*. *Seminole Tribe* involved the Indian Gaming Regulatory Act that "imposed on the States a duty to negotiate in good faith." 25 U.S.C. § 2710(d)(3)(A). Under that statute, the State had no choice. It was required to participate. Here, in stark contrast, the University has made numerous choices: to seek federal patent protection; to license its patent rights to Lilly in return for royalties; and to give Lilly the right to demand that the University bring an infringement suit against Genentech.[6] Finally, the University chose to threaten patent litigation against Genentech, instead of simply allowing Lilly to bring suit as the exclusive licensee.

Moreover, in the wake of *Seminole Tribe*, the federal courts have consistently applied the *Parden* doctrine to hold States amenable to suit. *See State of California*, 123 F.3d at 1271; *Premo*, 119 F.3d at 770; *US West Communications, Inc. v. Public Service Comm'n of Utah*, 991 F. Supp. 1299, 1301 (D. Utah 1998) (State waives its Eleventh Amendment immunity under Telecommunications Act of 1996); *accord US West Communications, Inc. v. TCG Seattle*, 971 F. Supp. 1365, 1370 (W.D. Wash. 1997); *accord MCI Telecomm., Corp. v. Bellsouth Telecomm., Inc.*, 9 F. Supp. 2d 766 (E.D. Ky. 1998); *accord Michigan Bell Telephone Co. v. MFS Intelenet of Michigan, Inc.*, 16 F. Supp. 2d 817, 825 (W.D. Mich. 1998); *Beasley v. Alabama State Univ.*, 3 F. Supp. 2d 1304, 1325 (M.D. Ala. 1998) ("Consequently, the principle underlying the above-quoted portion of *Parden*, which has not been called into question by *Welch*, *Seminole Tribe*, or any other subsequent decision of which the court is aware, lends solid support to the conclusion that Alabama

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[6] Indeed, given the circumstances under which the University threatened suit against Genentech, it is clear that Lilly was the actual party making the determination of how to proceed. The University, in effect, ceded its decision-making authority to Lilly. Having done so, it should not now be allowed to hide behind the shield of immunity.

could, and in fact did, waive its eleventh amendment immunity when it accepted federal education funds. . .").

Other courts, while not finding waiver of immunity based on the facts of those particular cases, still recognize the continued vitality of the *Parden* doctrine. *See College Savings*, 131 F.3d at 363 (3rd Cir. 1998) (finding no waiver where State activity was core governmental function); *Mills v. State of Maine*, 118 F.3d 37, 50-51 (1st Cir. 1997) (accepting *Parden* doctrine but denying discovery request since there was no federal program or statute that required waiver); *Booth v. State of Maryland*, 112 F.3d 139, 145 (4th Cir. 1997) (federal habeas statute and Antiterrorism and Effective Death Penalty Act of 1996 did not condition state participation on waiver), *cert. denied*, 118 S. Ct. 2063 (1998); *Taylor v. Virginia*, 951 F. Supp. 591, 603 (E.D. Va. 1996) (no waiver because Fair Labor Standards Act and federal highway statutes did not reflect Congress' clear intent to condition participation on waiver); *Hoeffner v. Univ. of Minnesota*, 948 F. Supp. 1380, 1395 (D. Minn. 1996) (federally regulated drug program did not condition state's entering the field of drug manufacturing on amenability to federal suit.)

Therefore, in light of the Fifth Circuit panel's clear – and now vacated -- misreading of *Seminole Tribe* and the continued reliance on the waiver doctrine by numerous other federal courts, there is no sufficient conflict among the courts as to the validity of the *Parden* doctrine to warrant review.

III. This Court Need Not Pass On Issues Not Decided Below

The Federal Circuit expressly based its decision on the State's ability to waive immunity, not upon any Congressional abrogation of immunity, under Article I or otherwise. Pet. App. 10a ("We need not now decide the constitutional question [of whether Article I is a valid basis for abrogating a State's immunity], for we conclude that [the University] has by its litigation–related actions waived its immunity and consented to this suit."). The use of Article I powers to abrogate Eleventh Amendment immunity, proscribed by *Seminole Tribe*, is not at issue here.

Despite the fact that the court below specifically refrained from deciding whether Congress could abrogate a State's Eleventh Amendment immunity in declaratory judgment actions involving the patent laws, the University contends that this issue is ripe for resolution by the Court. Although Genentech disagrees with the University's position on abrogation, Genentech believes that the issue should not be reviewed here.

As the University recognizes, review of the abrogation issue would run contrary to the well-established rule that the Court will ordinarily refrain from passing upon a question not resolved below. *Youakim v. Miller*, 425 U.S. 231, 234 (1976) ("[O]rdinarily, this Court does not decide questions not...resolved in the lower court"); *Bivens v. Six Unknown Narcotics Agents*, 403 U.S. 388, 397-398 (1971) ("This question was not passed upon by the Court of Appeals, and accordingly we do not consider it here"); *Aetna Casualty Co. v. Flowers*, 330 U.S. 464, 468 (1947) (the Court will decline to consider questions "not passed upon by that court nor adequately presented here"). While this rule is "not inflexible", modification of this general rule usually requires "exceptional cases." *Youakim*, 425 U.S. at 234, *citing Duignan v. United States*, 274 U.S. 195 (1927); *see, e.g., Mitchell v. Forsyth*, 472 U.S. 511 (1985) (whether the Attorney General's use of warrantless electronic surveillance to gather intelligence in a case involving threats to national security violated clearly established law).

The University fails to demonstrate any exceptional circumstances here to warrant departure from the normal rule. The University attempts to create a conflict between the circuits by conflating this decision with other circuit court opinions that have explicitly ruled on the abrogation issue. Unlike the present case, the University's cited decisions share the same factual scenario where private citizens bring suit for alleged violations by the State. *See College Savings*, 148 F.3d at 1352 (Fed. Cir. 1998) (State is accused of patent infringement); *College Savings*, 131 F.3d at 361 (3rd Cir. 1998) (State is charged with making statements constituting unfair competition); *Chavez*, 139 F.3d at 512 (State is alleged to infringe copyright).

Ignoring this distinction would not promote clarity but would foster confusion. If the Court decides to review the abrogation issue, it should do so in a case where the issue is squarely raised, not in one where there is an adequate and different basis for the decision.

CONCLUSION

For the reasons set forth above, the Court should deny the Petition for a writ of certiorari to the United States Court of Appeals for the Federal Circuit.

Dated: December 4, 1998

Respectfully submitted,

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No. 98-731

In the Supreme Court of the United States

OCTOBER TERM, 1998

REGENTS OF UNIVERSITY OF CALIFORNIA, PETITIONER

v.

GENENTECH, INC., AND UNITED STATES OF AMERICA

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF FOR THE UNITED STATES

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QUESTIONS PRESENTED

1. Whether petitioner waived its Eleventh Amendment immunity from this action for declaratory relief.

2. Whether Congress has validly abrogated petitioner's immunity from this lawsuit pursuant to its authority under Section 5 of the Fourteenth Amendment.

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BRIEF FOR THE UNITED STATES

OPINIONS BELOW

The opinion of the court of appeals (Pet. App. 1a-17a) is reported at 143 F.3d 1446. The opinion of the district court (Pet. App. 18a-30a) is reported at 939 F. Supp. 639. An earlier opinion of the court of appeals (Pet. App. 31a-59a) is reported at 998 F.2d 931. An earlier opinion of the district court is reported at 952 F. Supp. 617. Another opinion of the district court (Pet. App. 60a-66a) is unreported.

JURISDICTION

The judgment of the court of appeals was entered on May 4, 1998. A petition for rehearing was denied on August 5, 1998. Pet. App. 67a-68a. The petition for a writ of certiorari was filed on November 3, 1998. The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

STATEMENT

1. This case concerns a patent owned by petitioner, U.S. Patent No. 4,363,877, which arose out of research relating to the production of human growth hormone by means of recombinant DNA technology. *In re Recombinant DNA Tech. Patent & Contract Litig.*, 874 F. Supp. 904, 907 (S.D. Ind. 1994); *Genentech, Inc.* v. *Regents of the Univ. of Cal.*, 952 F. Supp. 617, 618 (S.D. Ind. 1996). The patent application was filed on April 12, 1978, and the patent was issued on December 14, 1982. 874 F. Supp. at 907, 908. In September 1978, petitioner and Eli Lilly and Company (Eli Lilly) entered into an option agreement, which provided Eli Lilly with the exclusive right to obtain a license to certain patents that might eventually issue from petitioner's research relating to human growth hormone, including the research that resulted in the patent at issue here. 952 F. Supp. at 618-619. After obtaining the approval of the federal government, which had provided funding for the research that led to petitioner's patent, petitioner entered into an exclusive licensing agreement with Eli Lilly in March 1989. 874 F. Supp. at 907-908; 952 F. Supp. at 619.

On August 6, 1990, respondent Genentech, Inc. (Genentech) commenced this lawsuit against petitioner and Eli Lilly in the United States District Court for the Southern District of Indiana. The gravamen of the suit

was that petitioner had accused Genentech of infringing petitioner's patent and had threatened to file suit against Genentech. Pet. App. 27a, 69a. The complaint requested a declaratory judgment that petitioner's patent is invalid and unenforceable, and that the patent was not infringed by Genentech. *Id.* at 19a-20a; 952 F. Supp. at 619. The day after Genentech's suit was filed, petitioner filed an action in the Northern District of California, alleging that Genentech had infringed the patent. Pet. App. 20a. The Judicial Panel on Multidistrict Litigation later transferred petitioner's lawsuit to the Southern District of Indiana for pretrial proceedings with five other related cases. See *id.* at 19a.

2. On February 4, 1991, the district court granted petitioner's motion to dismiss Genentech's declaratory judgment action on Eleventh Amendment and other grounds. Pet. App. 60a-66a. The court of appeals reversed. *Genentech, Inc.* v. *Eli Lilly & Co.*, 998 F.2d 931, 941-944 (Fed. Cir. 1993), cert. denied, 510 U.S. 1140 (1994) (Pet. App. 31a-59a). The court held, *inter alia*, that the Patent Act, 35 U.S.C. 1 *et seq.*, as amended by the Patent and Plant Variety Protection Remedy Clarification Act, Pub. L. No. 102-560, 106 Stat. 4230, expressly abrogated petitioner's Eleventh Amendment immunity from suit in federal court. 998 F.2d at 941-944 (Pet. App. 42a-50a).

After this Court issued its decision in *Seminole Tribe* v. *Florida*, 517 U.S. 44 (1996), petitioner again moved to dismiss the lawsuit on Eleventh Amendment grounds. The district court granted petitioner's motion to dismiss the case. Pet. App. 18a-30a. Under *Seminole Tribe*, the court held, Congress is foreclosed from abrogating petitioner's sovereign immunity under its Article I powers. *Id.* at 24a. The court also held that Congress lacked authority under Section 5 of the

Fourteenth Amendment to abrogate petitioner's sovereign immunity in this case, since Genentech's declaratory judgment action did not allege a deprivation of any property right. *Id.* at 25a-26a.

Finally, the district court concluded that petitioner had not waived its immunity from suit. Pet. App. 26a-30a. The court explained that petitioner's procurement of a patent, its grant of an exclusive license to Eli Lilly, and its alleged accusations of infringement and threats of suit against Genentech did not constitute an unambiguous expression of consent to this lawsuit. *Id.* at 27a-29a.

3. The court of appeals reversed. Pet. App. 1a-17a. Pursuant to 28 U.S.C. 2403(a), the United States intervened to defend the constitutionality of the relevant Patent Act provisions. Pet. App. 13a n.7. The court held that petitioner had waived its Eleventh Amendment immunity by voluntarily participating in the patent system and by "actively invok[ing] federal judicial power" to protect its patent rights against Genentech's allegedly infringing conduct. *Id.* at 11a. The court did not reach the abrogation issues addressed by the district court. See *id.* at 4a, 10a.

DISCUSSION

On January 8, 1999, this Court granted petitions for certiorari in No. 98-149, *College Savings Bank* v. *Florida Prepaid Postsecondary Education Expense Board*, and No. 98-531, *Florida Prepaid Postsecondary Education Expense Board* v. *College Savings Bank*. The Court's decisions in those cases may bear on the proper resolution of the waiver and abrogation questions presented by the petition in the instant case. The petition for a writ of certiorari should therefore be held pending this Court's decisions in Nos. 98-149 and

98-531, and disposed of as appropriate in light of those decisions.

1. The practical effect of the court of appeals' decision in this case is likely to be modest. Under the doctrine of *Ex parte Young*, 209 U.S. 123 (1908), the Eleventh Amendment does not preclude private parties from obtaining prospective declaratory relief against individual state officials for ongoing violations of federal law. Unlike the statute at issue in *Seminole Tribe*, the Patent Act expressly authorizes suits against state officers and employees. See 35 U.S.C. 271(h), 296; compare *Seminole Tribe*, 517 U.S. at 73-75. Enforcement of the patent laws does not implicate any "special sovereignty interests" that might render relief under *Ex parte Young* unavailable. Compare *Idaho* v. *Coeur d'Alene Tribe*, 521 U.S. 261, 281 (1997). The Federal Circuit's determination that a declaratory judgment action may also be brought against the State itself is of little practical significance.*

Even in the present case, where Genentech did not name any individual state official as a defendant (see note *, *supra*), the practical significance of the court of appeals' decision is minimal. As noted above, petitioner filed a patent infringement suit against Genentech in the United States District Court for the Northern

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* After the district court initially held (see Pet. App. 60a-66a) that Genentech's suit against petitioner was barred by the Eleventh Amendment, Genentech sought leave to amend its complaint to name the individual Regents of the University of California as defendants. *Id.* at 42a. The district court denied leave to amend the complaint. *Ibid.* The Federal Circuit in Genentech's prior appeal declined to address the propriety of the denial of leave to amend, in light of its holding that Congress had properly abrogated petitioner's Eleventh Amendment immunity. See *ibid.*

District of California, and that pending suit raises essentially the same patent law issues as those presented in this case. See Pet. App. 3a (referring to petitioner's suit as a "mirror-image" of the suit filed by Genentech); see also Pet. 4 & n.1. Thus, the only practical effect of the court of appeals' resolution of the Eleventh Amendment question is to determine which of two federal district courts will adjudicate those patent law issues, not whether the issues will be resolved in federal court at all. And no matter which of the two district courts resolves those issues, exclusive appellate jurisdiction will lie in the Federal Circuit. See 28 U.S.C. 1295(a)(1).

2. On January 8, 1999, this Court granted petitions for certiorari in No. 98-149, *College Savings Bank* v. *Florida Prepaid Postsecondary Education Expense Board*, and No. 98-531, *Florida Prepaid Postsecondary Education Expense Board* v. *College Savings Bank*. No. 98-149 presents the question whether the state defendant in that case waived its Eleventh Amendment immunity from suits for violations of Section 43(a) of the Lanham Act, 15 U.S.C. 1125(a). This Court's decision in No. 98-149 may clarify the legal rules concerning the circumstances under which a State will be deemed to have waived its Eleventh Amendment immunity from suit in federal court.

Petitioner also seeks review (Pet. 18-22) of the question whether Congress has validly abrogated the State's immunity from suit in federal court for violations of the Patent Act. The court of appeals did not address that issue, and this Court ordinarily does not consider issues that are not resolved by the court below. See, *e.g.*, *Patrick* v. *Burget*, 486 U.S. 94, 99 n.5 (1988). However, Nos. 98-149 and 98-531 both present questions concerning the scope of congressional author-

ity to abrogate a State's Eleventh Amendment immunity pursuant to Section 5 of the Fourteenth Amendment. The Court's decisions in those cases may bear on the proper resolution of the abrogation question in this case.

CONCLUSION

The petition for a writ of certiorari should be held pending this Court's decisions in No. 98-149, *College Savings Bank* v. *Florida Prepaid Postsecondary Education Expense Board*, and No. 98-531, *Florida Prepaid Postsecondary Education Expense Board* v. *College Savings Bank*, and disposed of as appropriate in light of those decisions.

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No. 98-731

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1998

THE REGENTS OF THE UNIVERSITY OF CALIFORNIA

Petitioners,

v.

GENENTECH, INC., AND UNITED STATES OF AMERICA,

Respondents.

On Petition for a Writ of Certiorari
To the United States Court of Appeals
for the Federal Circuit

REPLY IN SUPPORT OF PETITION FOR CERTIORARI

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REPLY IN SUPPORT OF PETITION FOR CERTIORARI

Petitioner, The Regents of the University of California ("the University"), hereby replies to the responses of the United States and of Genentech, Inc., to the University's petition for writ of certiorari.

I. THIS CASE SHOULD BE CONSIDERED TOGETHER WITH THE *COLLEGE SAVINGS BANK* CASES IN WHICH THE COURT HAS ALREADY GRANTED CERTIORARI.

A. The Issues Presented in this Case Are Complementary to Those to be Considered In the *College Savings Bank* Cases.

This case presents important issues that relate to and enlarge upon those that the Court will be addressing in two cases in which petitions for certiorari were granted on January 8, 1999. The cases are *Florida Prepaid Postsecondary Education Expense Board v. College Savings Bank*, No. 98-531 (on certiorari to the Federal Circuit) and *College Savings Bank v. Florida Prepaid Postsecondary Education Expense Board*, No. 98-149 (on certiorari to the Third Circuit). Both involve the extent to which state Eleventh Amendment immunity in intellectual property suits can be abrogated or waived. In order to address meaningfully the full scope of issues confronting the federal courts in this area, the Court should grant certiorari in this case as well and consider the three cases together.

At issue in number 98-531 is the constitutionality of the abrogation of state Eleventh Amendment immunity in the context of a suit against a state agency as an alleged patent infringer. In the instant case, the state entity (the University of California) is the patent holder, and is sued in a declaratory judgment action by an alleged infringer. Concurrent consideration of the two cases would allow the Court to deal at the same time with the abrogation issue as it arises in the two common forms of action—a suit against the state entity as alleged infringer and a suit against the state entity as patent holder—and thereby resolve the application of the Patent Act's abrogation clause, 35 U.S.C. § 296(a), in virtually every context that it is likely to be invoked.

In addition, the Federal Circuit holding in this case—that a state entity, by securing a patent and asserting it against an alleged infringer, constructively waives its Eleventh Amendment immunity—if accepted, would subject such state entities to federal court suit without regard to the validity or applicability of the abrogation provision. Consideration of the instant case together with number 98-531 would allow the Court to deal more fully with the important issue of when, in the patent context, state entities are subject to being sued in federal courts.

The waiver issue presented in this case complements that presented in number 98-149 relating to the continued viability of the constructive waiver doctrine, first enunciated in *Parden v. Terminal Railway*, 377 U.S. 184 (1964). In number 98-149, the state entity is alleged to have misrepresented its own tuition savings product in a manner that violated the Lanham Act, which contains a provision abrogating state Eleventh Amendment immunity in suits claiming a violation of the Lanham Act.[1] There is no claim in that case of specific actions taken by the state entity affirmatively to seek advantage under federal law. The claim is that merely by engaging in activity that is dealt with in the statute, a State waives its immunity from suit under the statute in federal court.

In the present case, the Federal Circuit declined to rely on *Parden*. Instead, it devised a waiver theory to the effect that a state entity waives its Eleventh Amendment immunity by choosing to enter a federal arena (that is, by securing a patent) and then by acting to protect its rights under the

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[1] Number 98-149 also presents an issue as to the constitutionality of the abrogation provision of the Lanham Act.

governing federal law. This waiver theory differs from the *Parden* constructive waiver doctrine in that it does not embody the element of an unequivocal expression of congressional intent to override Eleventh Amendment immunity—an essential element when the *Parden* approach is employed. *See Welch v. Texas Dep't of Highways and Pub. Transp.*, 483 U.S. 468 (1987).[2]

Consideration of this case together with No. 98-149 will enable the Court to deal more broadly with the recurring issue of implied waiver of Eleventh Amendment immunity by state entities, by deciding both whether any vitality remains in the *Parden* approach and whether the new Federal Circuit implied waiver theory should be countenanced.

Moreover, the waiver doctrine created by the Federal Circuit in this case, because its contours are so vague and its potential application is so broad, threatens an across-the-board erosion of the sovereign status of States and the principles of federalism. For that additional reason, review of the decision is appropriate in the context of this Court's consideration of the import of *Seminole Tribe of Florida v. Florida*, 517 U.S. 44 (1996), on the Eleventh Amendment immunity issues in the two *College Savings Bank* cases.

The Solicitor General's suggestion that this case be held pending the decisions in the *College Savings Bank* cases fails to recognize the independent import of this case. While the issues in the three cases are unquestionably related, disposition of the *College Savings Bank* cases will not decide

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[2] The Federal Circuit in the instant case considered the application of the abrogation clause of the Patent Act but declined to decide its constitutionality in the context of the state entity as patent owner and made no mention of the clause in describing its waiver theory.

this case. No matter how the issue of abrogation is resolved in the patent infringement context, there will still be a question whether (if abrogation is not upheld) securing a patent and seeking to enforce it constitutes a waiver of Eleventh Amendment immunity, under *Parden* or otherwise, or whether, if abrogation is upheld, it also applies when the patent is held by the defendant rather than the party initiating suit. Consideration of the three cases concurrently will permit a decision, or series of decisions, that can answer all of the important and interconnected questions presented in this area of the law.

B. Petitioner Is Prepared to Brief this Case So As to Permit Concurrent Consideration With The *College Savings Bank* Cases.

The Court has established a briefing schedule for the *College Savings Bank* cases that appears designed to permit oral argument in those cases in the final hearing session of the Term, presently anticipated for the last week of April. If the Court grants the writ of certiorari, Petitioner is prepared to accommodate the goal of concurrent consideration of these cases by filing its opening brief within three weeks of the Court's announcement of an order granting certiorari. Should the Court issue an order granting certiorari in February, respondents' briefs, assuming they are allotted the normal thirty-day period, would then be due by mid-April. Petitioner would undertake to submit a reply immediately thereafter, and in any event no later than seven days after receipt of the respondents' briefs.

II. THE RESPONDENTS' BRIEFS HAVE NOT DIMINISHED THE IMPORTANCE OF THIS CASE.

The approach of the Federal Circuit court in this case, if followed elsewhere, would erode the Eleventh Amendment

and force States on a regular basis to answer to private suitors in federal court in suits seeking all varieties of relief. The Federal Circuit waiver theory does not require even an unequivocal expression of congressional intent to subject States to federal court jurisdiction. It would be sufficient that the case involves an area of federal involvement (which encompasses a vast range of activities) and that the state entity has created a justiciable controversy by asserting positions under the federal law that are adverse to the suing party and that could be adjudicated in a federal forum.

Even looking only to the patent field, the decision below is of first importance, for it will govern patent actions against state entities in any federal court in the country, by reason of the Federal Circuit court's exclusive jurisdiction to hear appeals in federal cases arising under the patent laws.

The Solicitor General suggests that the practical effect of the decision below will likely be modest, because of the ability to name individual state officials in suits for prospective declaratory relief for "ongoing violations of federal law" under the *Ex Parte Young* doctrine (SG Br. p. 5) But this places far more weight on that doctrine than it can properly bear. The *Ex Parte Young* exception is available only to prevent future actions by state officials that are unlawful under federal law or the Constitution. It does not lie to resolve disputes generally in which state entities are involved. And a declaratory judgment action falls within its ambit only where there is continuing unlawful conduct under federal law that would be subject to injunctive relief. *See Green v. Mansour*, 474 U.S. 64 (1985).

A suit to declare invalid a patent owned by a state entity, or for a determination that the patent is not infringed by another person's product, involves no issue of continuing unlawful activity by state officials, and could not be brought under the *Ex Parte Young* exception to the Eleventh

Amendment immunity of States and their officials. More broadly, the waiver approach adopted by the Federal Circuit would authorize suits against state officials across a wide spectrum of activities that do not involve any unlawful activity by individual state officials under federal law. So the availability of the limited *Ex Parte Young* exception does not diminish the significance of the holding of the court below.

Respondent Genentech, Inc., suggests throughout its brief in opposition that this case is unique because of the contractual arrangement between the University and its licensee, Eli Lilly, which Genentech describes, without citation to the record, as one "granting Lilly the right to demand the University sue Genentech" in federal court. Gen. Opp. at 4; *see also id.* at 3, 9, 10, 13 n.6. In fact the license states that the University "shall prosecute infringers when, *in its sole judgment*, such action is reasonably necessary, proper, and justified." R. A17477 (emphasis added). The license provides that if Lilly provides the University with prima facie evidence of substantial infringement and the University fails to initiate legal proceedings, the licensee may suspend royalties in the country for which infringement is claimed and may bring suit in its own name as exclusive licensee, if permitted by the law of that jurisdiction. R. A17478. Similar provisions for abating patent infringement and allocating the costs of doing so are standard form in patent licenses. *See* Milgrim on Licensing § 22.11. In short, there is nothing in the reasoning of the court below or in the fact pattern of the case to support Genentech's implication that the decision under review is a narrow one.

CONCLUSION

For the foregoing reasons, and those set forth in the petition for writ of certiorari, we respectfully urge the Court to grant the writ and to establish a briefing schedule that will permit this case to be heard together with the *College Savings Bank* cases.

Respectfully submitted,

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